THE STATE OF CALIFORNIA LABOR

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STATE OF CALIFORNIA LABOR

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STRENGTHENING WORKERS' VOICE

PREFACE AND ACKNOWLEDGEMENTS

PAUL ONG AND JAMES R. LINCOLN

This volume represents a watershed in the histories of the Institutes of Industrial Relations at UC Berkeley and UCLA, which were established in 1945 as the University of California's primary vehicles for research, education, and service on labor and employment. For over 55 years, the two Institutes have supported and coordinated scholarly activities for faculty and student research on these themes, while offering outreach programs to unions, human resource managers, and other public and private sector employee constituencies. These activities have contributed significantly to the fulfillment of the University's obligation to serve the State of California as a whole. UC is one of the world's elite institutions of higher learning, but it can ill afford to be elitist. By pursuing research and service programs that directly benefit employees and the organizations that represent them such as unions and labor-oriented community groups, the programs of the IIRs provide some counterbalance to the enormous resources the University of California commits to education and research on business, management, and the professional workforce. The IIRs and the newly funded Institute of Labor and Employment that now sits atop them represent a deep and tangible commitment by the University to reaffirm its identity as a truly public institution with a mandate to serve *all* Californians, not least those who are relatively bereft of economic power - the lower-wage, the less-skilled, the minority or immigrant, and others disadvantaged in the labor market.

The *State of California Labor* is a significant and innovative event in the Institutes of Industrial Relations' long service to the University and State of California. The project was conceived by Paul M. Ong, Director of UCLA's IIR, to showcase the broad range of labor and employment research conducted at that Campus. Paul proposed to Jim Lincoln, Berkeley's IIR Director, that the *SCL* become a joint

project, thus symbolizing a renewed and closer partnership between the two Institutes. Moreover, the *SCL* volume project was designed to draw, not only on the intellectual resources of the Berkeley and Los Angeles Campuses, but on the UC system as a whole. The contributors of chapters thus hail from four UC Campuses: Berkeley, UCLA, Davis, and Riverside.

This book is the first in what will be a series *State of California Labor* reports. It marks an important transition in the histories of the UCLA and Berkeley Institutes. Henceforth, the Institute for Labor and Employment, a new UC-wide research entity, will produce the *SCL*. Moreover, unlike the current volume, which reports on research that UC scholars already had in the pipeline, future *SCLs* will be based on new data from large-scale original research studies of the California workforce, which the ILE will conduct at regular intervals.

The drive to establish the ILE began at Berkeley in response to the "Sunset to Dawn" Review to which all Organized Research Units on that Campus were subject in the 1999-2000 academic year. Friends of IIR felt that a bold new vision was needed: rather than continue as in the past to support research by Berkeley faculty and students and provide outreach chiefly to Northern California labor movement constituents, Berkeley's Institute should join with UCLA in crafting an expansive new program of policy research and outreach on critical contemporary statewide labor and employment problems. The IIR at UCLA under Director Paul Ong was facing its own Sunset Review and thus welcomed the opportunity to partner with Berkeley in forging a new, forward-looking model for the IIRs in the 21st Century. With the help of the California Labor Federation and other influential friends (including IIR Founding Director Clark Kerr), the Institutes launched a campaign to persuade the University and the State to establish the ILE as a new UC Multi-Campus Research Unit. The effort came to fruition on June 30, 2000 when Governor Gray Davis signed the State of California Budget for 2000-01, adding $6 million in permanent funding to UC's budget earmarked for the ILE. The $6 million represents a very substantial commitment on the part of the University and the State to the ILE mission of leading-edge policy research on problems of employment and the California workforce. While it still

pales against the University's vast investments in business-oriented research, teaching, and service, the funding of the ILE is a major public statement of UC's commitment to extend a share of its resources to all working Californians.

The key players behind the establishment of the Institute for Labor and Employment have been the two IIRs (directed by Jim Lincoln at Berkeley and Paul Ong at UCLA), their Labor Centers (chaired by Kirsten Spalding at Berkeley and Kent Wong at UCLA), the Advisory Boards of the Labor Centers (chaired by Peter Olney at Berkeley and Dave Sickler at UCLA), and the University of California Office of the President. The proposal received crucial support from former UC President and founding IIR Director Clark Kerr, and former IIR Director Lloyd Ulman. Yet the most critical players of all in persuading the legislature and Governor to support the ILE were UC President Richard Atkinson, a champion of the project from the start, and the leaders of the California Labor Federation: Executive Secretary-Treasurer Art Pulaski and President Tom Rankin.

Future editions of *The State of California Labor* report and the research on which it is based will be a centerpiece, but by no means the only activity, of the Institute of Labor and Employment (ILE). The ILE will draw on faculty, staff, and student resources throughout the UC system and will support an array of applied and policy research and outreach programs addressed to critical contemporary problems of labor, employment, and the workforce. The activities of the ILE will be centered at UC Berkeley and UCLA, each branch having the responsibility to involve faculty and students and organize research and service on other UC campuses in the northern and southern regions of the state. In this way, the ILE can leverage the scholarly expertise of all nine campuses in support of its overall labor and employment agenda while, in turn, promoting activities around that agenda on each UC campus. The establishment of the ILE is thus a most timely undertaking. The present economic challenges facing California today are no less daunting than the threats of unemployment, recession, and industrial unrest, which faced our state in the aftermath of World War II and impelled the governor and legislature to create the Institutes of Industrial Relations in 1945. By coordinating and supporting research throughout the system, the

University of California through the Institute of Labor and Employment and the two Institutes of Industrial Relations will continue to make important contributions to formulating policies and developing programs for the state's 21st Century workforce.

We acknowledge the wonderful support and assistance that made this first edition of *SCL* possible. The two Institutes of Industrial Relations contributed the bulk of the funds and staff support, but the project was also supported by a generous grant from the University of California Office of the President. Much of the research reported in this book was initially made possible by grants to authors obtained from foundations, governmental agencies, and other funding programs. The list includes: the Rockefeller Foundation, Ford Foundation, California Wellness Foundation, the State of California Employment Development Department, California Department of Social Services, U.S. Department of Labor, UCLA's Lewis Center for Regional Policy Studies, UC California Policy Research Center, the Alfred P. Sloan Foundation, the Sloan HR-Network, and the Sloan Competitive Semiconductor Manufacturing Team.

It would also have been impossible to produce this book without the hard work and able assistance of several staff people: Joyce Chon, Pat Kracow, Charles Ku, Hien McKnight, Glen Omatsu and Kylee Williams at UCLA, and Kent Pinster at Berkeley. We want particularly to acknowledge Julia Heintz-Mackoff who did an outstanding job of overseeing the daily and tedious tasks needed to bring all of the papers together and turn them into chapters.

Paul Ong, UCLA

James Lincoln, UC Berkeley

THE STATE OF CALIFORNIA LABOR: OVERVIEW

JAMES R. LINCOLN AND PAUL ONG

Introduction

At the dawn of the 21st Century, California enjoys a vibrant economy but is faced with enormous challenges owing to the changing composition of its workforce and the changing economic environment in the state. The challenges stem from a number of "new economy" trends, and are thus by no means unique to California. However, since California arguably is the vanguard of the new economy, such challenges may be appearing earlier here and in higher relief than elsewhere in the United States. In our view, the key labor and employment issues posed by the array of changes being brought under the rubric of "new" economy are:

- Increased global mobility of labor and capital
- The rise of the "virtual corporation" and the decline of long-term employment contracts
- The rising numbers of immigrant, minority, and contingent workers
- The mismatch between prevailing workforce skills and the needs of leading industries
- The growing reluctance of corporations to provide training, pensions, and health insurance
- The growing problems of rising working hours, job stress, and work and family balance
- Radical changes in the welfare system that are forcing hundreds of thousands onto the job market
- The need for new forms of labor representation and bargaining
- Extreme and rising income inequality and the swelling ranks of the "working poor"

The authors of this volume have grappled in one way or another with the troublesome reality that the California economy—for all its power, innovativeness, diversity, and opportunity - has some major problems that both scholars and policy-makers must address. California is truly a lesson in extremes. With a gross state product of $1.3 billion, it is the seventh largest economy in the world, roughly comparable in size to that of France, the United Kingdom and Italy. The state leads the nation in established as well as emerging industries. It is the number one

producer of agricultural goods in the United States and the number one manufacturer of computer goods. It has a commanding presence in the new information and biogenetics industries. Yet by other criteria, California's relative standing evokes less pride. Despite the economy's might, its median household income ranks only 17th nationwide, and it is number three in income. The plight of those at the bottom of the earnings distribution is a particular concern. Nearly half of California's children (an average of 46 percent for 1997-99) live in poor households (below 200 percent of the federal poverty level), putting California in the "top ten" states ranked by children in poverty. Over a fifth (an average of 21 percent for 1997-99) of Californians have no health insurance, placing California in the top five states ranked by proportion of uninsured.

Although several chapters touch on the high-skill and high-tech workforce, the general focus of the book is the relatively disenfranchised: the lower-skill, lower-wage, welfare-dependent, minority, and immigrant segments of the state's workforce. Our aim is to identify problems and find solutions: new government policies as well as new strategies of organizing and change to be undertaken by the employee community itself. Certainly, the issue of unions and organizing looms large in these pages. It will be readily apparent that our authors share a conviction that unions and other forms of labor organization comprise a timely solution to a number of the challenges presented by new economy trends.

The formulation of effective policies and strategies of change, however, requires solid knowledge of the nature, magnitude and causes of the problems. Thus, the majority of our chapters have a two-fold concern: (1) documenting the evidence relating to problems or issues — how large or prevalent are they; are they growing or declining; what are their causes and consequences; and (2) identifying the effective policies or organizing strategies that address the problems or issues.

The book is organized into five parts, each consisting of three or more chapters. The first section addresses the forces that are reshaping California's labor market - the business cycle, longer-term secular trends in the macroeconomic conditions, shifts in the distribution of earnings, dramatic demographic change brought on by large-scale immigration. Part II has a more micro, sectoral focus, dealing with labor and employment patterns within agriculture, the informal economy, and the low-wage sector and the high-tech industries. Part III is even more

specific, dealing with two workplace issues, training and safety. Part IV includes three chapters on the effects of welfare reform in comparing trends for California with those for the nation, identifying some of the major barriers to employment encountered by welfare recipients, and evaluating the wages and benefits offered by employers. The last part examines the trends in unionization and the challenges facing efforts to strengthen workers' collective voice.

Part I: General Economic Trends

The three chapters in the first part of the book address broad trends in California's economy and labor market. Daniel Mitchell draws on forecast evidence in offering an outlook on California industry and employment. The state's long economic recovery from the "structural" recession of the early 90s (when the end of the Cold War eliminated much of Southern California's aerospace and defense industry) testifies to the fundamental strengths and adaptability of California's economy and the productivity of its workforce. He notes that much of the state's economic growth in recent years was fueled by a booming stock market, producing a "wealth effect" from which all of the California economy—not least of all the public sector— have benefited. The worst scenario for the state, in his view, is a severe stock market crash, but Mitchell is hopeful that the Federal Reserve's policy of incremental interest rate hikes will permit a "soft landing." For the short-term, Mitchell forecasts expansion in real estate, construction, and services amid continued declines in aerospace. In the longer term, the outlook is for continued growth in population and even faster growth in labor force size (over the next twenty years), putting major pressure on housing supply, environment protection, schooling, and transportation.

Paul Ong and Michela Zonta do a fine-grained analysis of trends in California earnings inequality since the early 1970s. The level of inequality fluctuates with the business cycle, but there has been an underlying secular increase, which the current economic expansion has failed to reverse. Their evidence shows that only workers in the top 25 percent of the workforce have increased earnings significantly, whereas the second and third quartiles (lower middle and upper middle) have lost ground. Ong and Zonta then proceed to explore the reasons for these troublesome earnings trends. Particularly striking is the increase in returns to education. While college graduates have held their own in terms of real earnings, workers lacking a college education have suffered precipitous

declines. Workers without a high-school degree have seen their median annual earnings fall by *almost* half over the past quarter-century.

Income inequality has a distinct spatial dimension: regions vary in average earnings, and in California that variance is rising. In the early 1970s, the San Francisco Bay Area had a small advantage in median earnings over the Los Angeles-Orange County-Riverside region and the rest of the state. By 96-98, average pay in the Bay Area was about the same, but elsewhere average earnings had fallen. Declining union density in California is both cause and consequence of rising earnings dispersion. California union density dropped from 26 percent of all workers in 1983 to 18 percent in 1999. Finally, the changing gender and race/ethnic composition of the California workforce figures in California's greater inequality. No surprise here: the authors find that minorities have borne the brunt of declining pay. Interestingly, the only race-gender group to show steady income gains over this approximate 25-year period is Anglo (white non-Latino) females.

Abel Valenzuela and Paul Ong examine the most significant demographic change in the state's labor force, the growth of the immigrant workforce. Since the 1960s, the United States has experienced a renewal of large-scale immigration, and California has been the premiere destination. The state is home for three-tenths of the nation's legal immigrants and for four-tenths of the undocumented immigrants. The foreign-born proportion of the state's total population has climbed from less than one-tenth in 1960 to over a quarter at the end of the century. Their share of the labor force jumped from one in ten in 1970 to three in ten in 1997-99 as their ranks increased by almost 4 million, a 500 percent growth rate. The immigrant labor force is disproportionately comprised of Latinos and Asians, and a third of all foreign-born workers do not have a high school education. However, this population is far from being homogenous. Asian and non-Hispanic white immigrants tend to be better educated than Latino immigrants. Because of low educational attainment and a lack of other marketable skills, immigrants are concentrated in low-status occupations and low-wage jobs. This is particularly true for Latino immigrants, who have the lowest median earnings among the major immigrant and racial groups. On the positive side, immigrants do experience upward mobility over time, but progress is slow. Valenzuela and Ong find that it takes about 16 or more

years for an immigrant to close the earnings gap, when compared to a U.S. born worker with the same number of years of schooling and work experience, and of the same gender and race. They conclude by arguing that California's future depends on promoting a smooth transition and greater incorporation of immigrants into better paying occupations and increasing the wages in traditionally bad paying jobs.

Part II: Four Economic Sectors

California is not only one of the largest economies in the world, but it is also one of the most diverse. Its major industries range from agriculture to entertainment to high-tech. The labor market is equally heterogeneous, divided into segments defined by education and skill, population characteristics, and employment practices. Each industry and labor cluster is unique in composition, dynamics, problems and opportunities. Obviously, it is impossible for this volume to cover every economic sector. The four sectors included in Part II were the result of pragmatic considerations, particularly the availability of potential contributors; nevertheless, these sectors are among the most important to the state.

Enrico Marcelli considers a major component of the "informal" economy, the employment of "undocumented" immigrant labor. By its very nature, informal employment is hard to observe and measure, so various indirect measurements must be applied. Using regression methods and specialized survey data, he estimates that informal workers are heavily concentrated in the Los Angeles and San Diego regions and are overwhelmingly non-Anglo—half being Latino. Informal workers are younger and less schooled than are workers in the formal sector, which contributes to their high and rising rate of poverty. Informal employment as a fraction of the workforce fluctuates with the business cycle, falling in the early 1990s recession and rising in the late-90s expansion. Informal employment is a significant social and regulatory problem because such workers are subject to poor working conditions, health and safety hazards, and below minimum wage pay. Moreover, the state is denied the tax revenue from the goods and services informal workers produce. There is, however, no simple solution to the informal employment problem. The policy debate seesaws between disparate political agendas. On the left are proposals to expand government programs to achieve full employment (e.g., through public works) and extend

welfare benefits. On the right are proposals to deregulate formal employment on the assumption that milder regulation and lower taxes reduce employers' incentives to hide labor and production.

Philip Martin reviews labor relations within California agriculture. Employment here is heavily concentrated in large corporate farms, the ten largest growers accounting for some half of total agricultural employment. Farm labor is 29 percent Hispanic, 95 percent foreign-born (almost entirely from Mexico), and, on average, resident in the U.S. five or fewer years. The number of unauthorized farm workers has been rising by 3-4 percent per year. Most farm labor hires in California are made by bilingual foremen employed by the farmer or farm labor contractors. The contractors tend to be responsible for the most egregious labor law violations. Piece rates are still the dominant mode of paying farm laborers, although the extension of the minimum wage to agriculture brought more workers under hourly pay.

Unions and bargaining in California agriculture have garnered much national visibility through the years, due chiefly to the attention given the United Farm Workers' struggle for recognition and the charisma of UFW leader Cesar Chavez. The Agricultural Labor Relations Board, established in 1975 when the state extended organizing and bargaining rights to agricultural workers, has overseen 1,600 elections and certified unions on 800 farms. Notwithstanding the UFW's high national profile, its overall record since the 1970s has been spotty. The union often fails to convert certification victories into first contracts, and its rate of decertification is high. The lack of strong and sustainable union representation, plus the obvious problems of enforcing labor regulations affecting a mobile and seasonal workforce, are among the reasons that the conditions of employment for many agricultural workers remain poor.

Michael Reich and Peter Hall examine the low end of California's wage distribution, workers at or near the minimum wage. The proportion of the state's workforce earning less than $10 per hour grew from about 32 percent in 1980 to over 37 percent in the early 90s. Reich and Hall evaluate the economic tradeoffs of the minimum wage in an analysis of California's 1996-98 increase. The one adverse effect they measure concerns inflation. Prior to the raise, California's price inflation lagged the nation. Soon thereafter, the national rate fell while that the state's rate held steady. A reasonable conclusion is that the minimum wage increase was an "exogenous shock" that put upward

pressure on California prices.

Otherwise, Reich and Hall find no adverse impact on the California economy of the minimum wage hike. It did not detectably increase layoffs or slow job growth. The authors also find no evidence that employers responded to the increase by substituting higher-skilled workers willing to work at the new minimum. Thus, a higher minimum wage does not simply subsidize higher skill and wage brackets but truly serves the working poor. Given (at this writing) the still robust California economy, we can suppose that the $1 increase in the minimum wage approved by Governor Davis in the fall of 2000 will again benefit the poorest workers without major negative spillovers to the economy as a whole.

While the other three chapters in Part II focus on the low-wage workforce, that by Raphael, Brown, and Campbell examines high-tech employment. High-tech accounted for roughly the same proportion of employment in 1999 as in 1984 (11 percent), but its composition had shifted markedly: from aerospace and defense to computers and telecommunications. The good news in the high-tech sector for California labor is that it pays workers more at every level of schooling, a wage premium that has grown over the past 15 years. Moreover, unlike other industries, where the worst educated (defined as high school diploma or less) workers experienced large declines in real wages—in high-tech this particular group enjoyed the greatest wage gains. The arguably bad news in high-tech for labor is that: (1) at 6 percent and falling, it employs far fewer poorly educated workers (defined as high school diploma or less) than in other industries (40 percent); (2) high-tech's total employment is only 11 percent of the workforce; (3) relatively disadvantaged demographic groups such as Blacks and Latinos are underrepresented as employees; and (4) high-tech industries have been extremely resistant to union organizing drives.

Part III: Training, Health, and Safety

Training and skill formation are major issues for the California workforce, but the state's problem-ridden and, in recent decades, underfunded public school system takes constant criticism for its perceived failure to equip students with the skills demanded by industry and necessary to keep the economy competitive. If California workers are insufficiently trained, however, employers must shoulder some of the blame. Despite the broad penetration of new technology into California worksites, employers are showing more and more reluctance to invest in training.

The reasons are not hard to discern. Given a highly mobile workforce, the employer that spends heavily on training runs the risk that competitors will "poach" its employees, thereby appropriating the gains from training while avoiding the costs. Moreover, the general weakening of the employment relation - most evident in the rise of the contingent and part-time workforce - lowers the employer's incentive to commit time and resources to training. Finally, today's "lean and mean" corporate ethos has meant deep paring of overhead and infrastructure costs, including human resource staff and programs, thus weakening training capabilities in many companies.

Christopher Erickson and Sanford Jacoby address private sector employers' propensity to train as one outcome of a general "high road" or high performance strategy of work organization and human resource practice. Despite the limitations of their questionnaire data on California establishments (e.g., low response rate), they report some strong and interesting findings. Large employers, unsurprisingly, offer more training than do small ones, but large California establishments lag behind the nation in all categories of job skills training. Moreover, most of the training offered is targeted at white-collar, managerial staff. These programs are typically run in-house; few firms contract to outside trainers, even local colleges. For reasons that are not clear, Erickson and Jacoby find California employers having less contact with schools than is true of the country as a whole. Consistent with the hypothesis that training is bundled with other high-performance workplace practices, firms that train offer numerous other employee benefits as well. Another strong predictor of training effort identified by their survey is the degree to which the employer is integrated in professional networks, such as management associations or dealings with consulting firms. Networks of these sorts expose employers to progressive human resource ideas and arouse managerial interest in employee development. Erickson and Jacoby end with a discussion of policy alternatives to encourage more firms to take up formal training. They stress in particular educational programs or conferences and competitions (similar to the Baldrige Award for quality) in order to spread interest in and capacity for training.

The chapter by Archie Kleingartner and Rong Jiang examines the spread of on-line, Internet-based, self-paced employee learning programs and their substitution for traditional instructor-based, residential training programs. They see on-line learning "revolutionizing" corporate training. Since the mid-90s, on-line training has grown by leaps and bounds, both in terms of demand as measured by corporate spending and supply in terms of the

number of agencies and firms offering programs of on-line instruction. Moreover, the content is shifting from technical skills to the "softer" management and communication skills. They identify a number of downsides such as the ever-present risk of technical glitches, problems in imposing discipline on students, and superficial content. Still, on-line training has obvious attractions in terms of cost savings and convenience. Well-developed on-line training widely disseminated by new technology can enable huge numbers of students to learn at home or at office computers. Yet, California's embrace of it is by no means complete. The state is a major source of the technology and content that feed on-line education, but California firms - with some notable exceptions - have been slower than the nation as a whole to adopt such programs for their own employees. However, some recent educational policy initiatives by the state are aimed at expanding the potential of the on-line option. In addition, private sector consultants and consortia are offering programs to assist companies in learning about and accessing on-line learning resources.

Marianne Brown deals with health and safety in California worksites. Her chief concern is the gathering of complete information on the incidence of workplace illness and injuries. The data problem, she argues, has grown as a result of various changes in the state's economy (e.g., a shift in employment to smaller firms and a rise in contingent and contracted labor). Another factor is the spread of management-initiated workplace programs ostensibly designed to promote better awareness of and procedures for dealing with health/safety issues but in practice are also effective in discouraging workers from reporting health problems or taking time off for illness or injury. Consequently, she is highly skeptical of recent evidence, produced by state agencies and heralded by state officials, of significant declines in California workplace injury and illness rates. Such data are markedly discrepant with projected rates for California derived from national statistics. Brown calls for a comprehensive data system, designed and overseen by an independent task force, that would integrate information from a number of agencies. She also recommends regular surveys of shopfloor workers to elicit their perceptions of health and safety conditions and their views on the need for regulatory response. Finally, she calls for stronger "whistleblower" protections to encourage employees to report health and safety problems without fear of employer reprisals.

Part IV: Welfare Reform

Three chapters discuss the impact of welfare reform on California. As President Clinton promised, the nation has ended welfare "as we know it." In 1996, Congress passed and the President signed the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), which transformed U. S. social policy. The legislation replaced an entitlement program for needy families with a program to end welfare dependency and promote economic self-sufficiency through employment. New regulations limit cash support, place a time limit on benefits, mandate strong work requirements, and delegate the implementation to the states and local agencies. As a result of these reforms, hundreds of thousands of recipients are entering the labor market, but it remains to be seen how many of them will ever find decent jobs.

David Card examines how welfare reform programs nationally and in California have shaped work incentives and the migration from welfare to work for low-income women. Even before the federally-sponsored welfare reform legislation passed in 1996, the California's welfare system contained relatively strong incentives to work. Card notes that it is difficult to assess the full impact of the federal welfare reform initiatives on California, as the changes have yet to work fully through the system. Moreover, the fluctuations in the state's economy over the 90s decade - from severe slump in the first half to strong growth in the second - make it hard to disentangle the labor market effects of welfare program changes from those of aggregate labor demand. Also, the Current Population Survey data that speak to the demographic and labor market effects of these changes are only available up to 1998. Even so, he identifies a number of noteworthy outcomes: a 50 percent drop in welfare caseloads in California; a substantial rise in the fraction of welfare recipients who work; and a decline in poverty rates among single female-headed families.

Evelyn Blumenberg is more critical of how welfare reform is playing out in California. She acknowledges that the strong economy has proved false the most dire scenarios - of families thrown off welfare reduced to begging in the streets. With record low unemployment for the state, most participants found unsubsidized employment in 1998. Despite the ability to find a job, the vast majority is unable to earn a living wage. It remains questionable

whether many welfare recipients will ever move into better jobs that will enable them to support their families and free them of welfare dependency once and for all. The barriers welfare recipients face to gaining access to high quality jobs are formidable. The litany is familiar: no high school diploma, poor English language skills, dependence on pubic transit, health problems, and small children at home. The evidence is that welfare participants presented with these obstacles are considerably less likely to be employed than is true of recipients unencumbered by them. Moreover, for recipients faced with *multiple* such barriers, the odds of working plummets. Blumenberg concludes that a sustainable transition to work for California welfare participants held back by a multitude of employment barriers requires a menu of policy interventions to provide training, deal with disability and health problems, offer childcare and transportation, and so on. She also calls for expansion of the Earned Income Tax Credit - a federal program with strong built-in work incentives that has helped to lift many low-wage workers out of poverty.

In reviewing Los Angeles County's recent experience with welfare reform, Paul Ong and Sharon McConville argue that the current outcomes of welfare reform are best depicted as a glass half empty and half full. They, too, acknowledge that it is too soon for firm conclusions, especially on the question of how many recipients will achieve economic self-sufficiency. L.A. County's welfare-to-work programs predate the 1996 federal legislation, but much of the focus in the early years was on education and training to prepare welfare recipients for good jobs. In part because earlier evaluation studies had shown success with a "work-first" model where participants were moved directly into employment with little regard for their preparedness, the focus of L.A. County's programs shifted to rapid placement of recipients in entry-level jobs while supplementing that income with welfare. The "work-first" emphasis succeeded in rapidly scaling down welfare rolls and in placing erstwhile recipients in unsubsidized employment. However, Ong and McConville are skeptical that such entry-level jobs will prove a stepping stone to sustainable employment. Given the skill deficiencies of the people and the dead-end nature of most such jobs, the prognosis is poor that early success in getting people off welfare and into jobs will soon be followed by comparable success in moving them to sustainable, self-sufficient employment. They endorse and call for expansion of L.A. County's program of extensive post-employment services to raise the odds that former recipients' transition to higher quality jobs and careers.

Part V: Strengthening Workers' Collective Voice

While various chapters in the first four parts of the book touch on unions and organizing, the final part is devoted to these topics. The casual observer might not be quick to associate California with unions and organizing. This is the "new economy," the land of high-tech entrepreneurship and the mobile and contingent workforce. Unions, so goes the latter-day conventional wisdom, are a fixture of the "old economy," a relic with no value in today's fast-paced and flexible labor markets. The truth is that unions are strong in California, getting stronger, and, as several of our authors show, play genuinely positive roles in improving the economic and political lot of low-skill, low-wage, and minority workers.

Carol Zabin, Katie Quan, and Linda Delp give a general overview of unions in the state. As we noted at the outset, California leads the nation in sheer number of union members and is in the top third (15th) of states in union density (16.6 percent). Most of this union strength, however, reflects a very high public sector density rate of 51 percent. In the private sector, union penetration at 8.5 percent is far below the national average of 15.6 percent. The combination of high public sector unionization and high ethnic diversity produces a California union membership that is disproportionately female and minority (chiefly Asian and Latino) compared to the nation. Union membership is thus particularly advantageous to women, minorities, and the less educated, buffering them from the wage and working condition deficits that afflict these groups in the non-union sector.

California is a leader in the "new" American unionism. By dint of organizing victories like the 1999 SEIU certification drive for home health care workers in Los Angeles, the steady decline in California unionization rates reversed in 1999 as 132,000 workers joined the union rolls. In the home health case and other successes, California unions — spurred by the AFL-CIO's recent change of heart on immigration policy—have been innovators at organizing immigrants and in building coalitions with community-based organizations to mount living wage campaigns and economic development projects.

Edna Bonacich and Fernando Gapasin offer a thoughtful discussion of the challenges facing union organizing in an era of global capital mobility; the decline of the large, stable factory; the spread of "contracting

out"; and heightened workforce diversity. Their solution is "social movement unionism:" an ideals-driven, mass mobilization aimed at broad social and economic change. This is a departure from old-style American "business unionism" wherein professional union administrators serviced the often dwindling membership of established bargaining units. The authors discuss a number of creative union organizing efforts that showcase the potential of the social movement model: the Justice for Janitors campaign in Los Angeles; the Los Angeles Manufacturing Area Project; and various campaigns around the country for living wage ordinances. Common to these initiatives was a commitment to organizing (in the fashion of the 1930s CIO) everyone within a particular area or industry, as opposed to targeting the employees of a single employer. Again, the essence of the tactic is that union organizers join forces with an array of community and political groups who share a broad social justice agenda.

Finally, Marcos Vargas takes up the theme of partnerships between labor and community-based organizations, reporting on a survey of 214 unions and CBOs in five California counties. CBOs run the gamut from faith-based groups to immigrant or minority self-help associations to pro-labor organizations such as San Jose's Working Partnerships USA, an affiliate of the South Bay Labor Council. Their survey data show the leading collaborative programs between unions and CBOs to be: voter participation (59 percent involvement), organizing support for unionization (54 percent), policy advocacy (36 percent), and community-based organizing (29 percent). The dominant issues addressed were, first, living wage, followed by health care reform, immigrant rights, welfare reform, education reform, and environmental protection. Vargas concludes with a case study of coalition-building between CBOs and unions in the enactment of a living wage ordinance in Ventura County.

Concluding Remarks

The chapters in this collection speak to a number of critical labor and employment issues in California: extreme income inequality and the plight of the working poor; the problems faced by immigrant and minority workers; issues of training and labor productivity; the challenges in moving welfare recipients into stable, well-paying employment. They provide evidence on the nature and scope of such problems, they analyze and interpret that evidence, and they propose policy change aimed at ameliorating them.

The policy solutions our contributors propose take a variety of forms. First, they often call for better data.

As we noted, absent accurate and detailed information on the scope and nature of a problem, rational policy-making cannot proceed. Nothing is more futile and wasteful than expensive regulation or intervention based on faulty estimates of the scope and significance of a problem or wrongheaded notions about its causes and effects.

Several of our authors—Raphael, Brown, and Campbell on high-tech labor; Marcelli on the informal economy; Ong and Zonta on trends in earnings inequality—provide rich new data, enabling policy-makers to get a better handle on the changing nature of the workforce or the scale and evolution of a social problem. Still other chapters—Erickson and Jacoby on training effort by private sector firms; Card on welfare-to-work; and Reich on the effects of the California minimum wage—offer careful quantitative analysis of the intended and unintended consequences of policy interventions designed to induce shifts in job or income distributions. The chapter by Marianne Brown critiques existing data and calls for fresh thinking about how to measure the prevalence of illness and injury on the job and the effectiveness of regulation in preventing them. Finally, other chapters (Ong and McConville on L.A. County's welfare-to-work programs and Bonacich and Gapasin on union organizing strategies) are at least in part advocacy pieces, reviewing the policies and strategies of the past and calling for new or revised programs to do a better job.

Among the general themes running through several chapters, one of the most important is California's extremely unequal wage distribution. Part of the reason, as David Card and Valenzuela and Ong point out, is the disproportionate number of immigrant Californians who command very low wages owing to liabilities of experience, education, and language. Some of it is due to structural change in labor market mechanisms; specifically, the upward shift in the minimum education necessary to get a job that pays a living wage, provides a stepping stone to higher pay and status, and offers respectable benefits. Many jobs that once required no high school diploma or years of college now do. Education is an easy (if highly incomplete) way for an employer to measure quality and therefore winnow an applicant pool, even if the tasks required by the position may not strictly require the higher levels of schooling. Sadly, as schooling levels vary by race and ethnicity, some employers have found that raising the minimum education required for a job is a "safe" way of excluding minority applicants.

Inequality is not an easily tractable problem. Neither, however, is it immutable. The evidence presented by

our authors makes clear that increases in the minimum wage, living wage ordinances, and the "wage premium" produced by unionization are all ways to bring up the "bottom" and reduce inequality.

Thus, much of our focus has been on the transition from entry-level jobs paying less than a living wage to "high road" jobs that put workers on the path to true economic self-sufficiency. Our volume pays considerable attention as well to the transition from welfare to work, the work in this context almost invariably being entry-level, minimum-wage, unstable and dead-end. Yet so far, thanks in no small part to a strong economy and tight labor market, the state has made remarkable progress in scaling down welfare and moving recipients to unsubsidized employment. This is not to minimize the plight of former welfare recipients struggling to balance work and childcare responsibilities, long distance commuting in urban regions with inadequate public transportation, or scraping together enough income to make ends meet. But, as our authors point out, employment is a critical first step; policy interventions can and should be directed at easing the lot of the working poor. Should the economy cool and unemployment rise, of course, the situation would become more desperate, and the welfare system may again come under considerable pressure to support the families that the market economy has thrown off.

Our contributors also endorse unions' innovative strategies of organizing and bargaining, which have revitalized the California labor movement. Our authors see unions as generally a very good thing for California labor. Besides improving the economic well-being of low-skill and minority workers, unions promote community participation by disadvantaged groups, thus socially integrating and enfranchising people who might otherwise be consigned to the margins of American society. Yet unions have been a declining fixture of the employment scene in California and throughout the nation for years now, and relatively few California workers enjoy the rights bestowed by unions to press collectively for better working conditions and rewards. Our authors demonstrate, however, that California unions lead the labor movement nationally in formulating new strategies of coalition-building, organizing, and campaigning, not just for better bargaining unit wages, but in pursuit of broader social justice goals. Unions raise the bottom of the wage distribution and thereby lower inequality; they give disadvantaged (e.g., immigrant, minority) workers a voice; they promote safer and fairer conditions on the job. Some evidence even suggests that they may raise the labor productivity of the firm or industry. Moreover, they appear to do many of

these things without imposing severe costs on the firm or on the economy as a whole.

We and our contributors generally share a vision of how the 'state of California labor' might be improved. What is needed are: measures to promote strong and continuing economic growth; investments in innovative training and education programs to increase labor skill and productivity; broad cooperative efforts by union and community-based organizations to evoke and direct the energies of marginalized employee groups; well-designed and carefully-targeted policies that support and stimulate the economy so that it simultaneously creates good jobs and absorbs new labor market entrants. Thus, there is wide agreement across the chapters of this volume that a strong economy in general and a strong labor market in particular are essential ingredients in any policy effort to meet the formidable challenges posed by the new economy, the 'end of welfare,' and the growing ranks of immigrant and minority workers. We also embrace the view that the machinations of the economy must be tempered by policy interventions and employee activism in order to ensure that the jobs and wages generated endow working people with a reasonable standard of living, a measure of employment security, and protection from health hazards and exploitative treatment on the job. Surely all Californians will be better off and will take much more pride in this incredible state if the search for solutions proceeds down a "high road" such that there are gains for everyone rather than windfalls for some, stagnating fortunes for many, and a slow descent into poverty for many more.

CHAPTER 1

A FORECAST FOR THE CALIFORNIA LABOR MARKET

Daniel J.B. Mitchell

The condition of the California labor market, or, more properly, labor markets is in large part a reflection of the general health of the State's economy. In turn, the California economy is linked to the level of activity in the nation as a whole as well as to global markets for goods and financial assets. The outlook for the California labor market is good by almost any measure, but there are dangers primarily stemming from risks in the financial sector. Specifically, a major and sustained meltdown in the stock market could have adverse effects nationally and a disproportionate impact within California. In this chapter, we draw on evidence developed by the UCLA Anderson Forecast at its March and June 2000 quarterly conference as well as earlier, longer-term analysis assembled by the Forecast Project.

California's National Linkage: A History

Graph 1 shows the close association between economic conditions in California and the rest of the U.S. as reflected in annual percentage changes in employment (Mitchell 1998). Basically, if a California forecaster were allowed only one piece of information in projecting next year's labor market trends, he/she would want to know what was going to happen in the U.S. as a whole. From World War II to the mid-1990s, a second question would have been what was happening to defense spending. But after the mid-1990s, that second question became increasingly less important due to the decline of California's defense sector.

Although it is fashionable for state boosters to point to what a large economy California would be if it were an independent country, it is not in fact an economically independent entity, as graph 1 makes clear. There is no California central bank and no California currency or exchange rate to provide economic independence from the rest of the U.S. There were political and social movements within the state during the Great Depression that sought to revive the California economy in the face of national depression through creation of some form of California monetary independence (Mitchell 2000). But as a practical matter, no such options exist for a state within the U.S. Nor can California isolate itself from U.S. trends through protective tariffs or internal migration barriers, although the latter was also tried briefly and illegally by Los Angeles in the 1930s.[1] California's financial markets are also not separable from those outside its borders.

Since the end of World War II, California has achieved a faster rate of population, labor force, and employment growth than the U.S. as a whole. However, defense spending – especially as reflected in its aerospace industry – played an important role in the State's ongoing economic expansion. The end of the Cold War, therefore, left a scar on the state. Two gaps opened in the late 1980s and early 1990s which

have not yet been closed. California's share of the nation's population diverged from its share of employment, resulting in a softer labor market in California than in the U.S. And the State's employment growth – even after recovery from the recession of the early 1990s got underway – remains on a lower expansion path than previously. According to UCLA Anderson Forecast projections, the latter gap means a "loss" of about 2.5 million hypothetical jobs for the State by 2002, compared to what would have been expected on the old growth path.

For many years after World War II, California had a somewhat higher unemployment rate than the nation as a whole. The higher rate reflected in part the State's youthful age profile that had developed by the early 1950s. New migrants into the State, initially from the other states but to an increasing extent from other countries, tended to be young and mobile. Although California experienced the same deep recession in the early 1980s as the rest of the country, the Reagan administration's defense build up of that era closed the gap between the national and state unemployment rates. The post-Cold War decline of aerospace reopened the U.S./California unemployment rate gap, although a convergence began to develop in the post-recession period of the late 1990s.

Net in-migration to California (domestic + foreign) actually turned negative in the early 1990s due to falling job opportunities in the State. (graph 2) The outflow was a domestic matter; immigration to California remained positive throughout the period, sparking the State's anti-immigration Proposition 187 of 1994. But the delayed California recovery again began sucking in domestic migrants by the late 1990s. Still net in-migration to the State has not returned to the levels seen in the Reagan-era expansion.

Recent National Trends

By the late 1990s, the U.S. economy was in a boom unlike anything seen since the late 1960s when Vietnam War spending played a role (Dhawan 2000a). The national unemployment rate fell to levels not attained since that earlier era. In a sense, the 1990s were the mirror image of the 1970s. In the 1970s, everything that could go wrong seemed to do so. The Bretton Woods international exchange rate system collapsed in the early 1970s, leading to dollar depreciation and resultant inflation. A war in the Middle East crystallized the OPEC cartel, producing a dramatic increase in petroleum prices in 1973-74. The Iranian revolution at the end of the decade had a similar effect, a second "oil shock." Productivity growth, for reasons still unclear, slowed dramatically.

In the 1970s, everytime we flipped the economic coin, it came out tails – to the point where observers began to think that perhaps there was something wrong with the coin itself. That something was nicknamed "stagflation," a seeming tendency for inflation to accelerate even at comparatively high rates of unemployment. A popular explanation at the time was that it was all the fault of the baby boomers. Young people have higher unemployment rates, so some of the stubborn failure of the unemployment rate to decline was blamed on the boomers then entering the labor market. Moreover, their declining SAT scores were taken as a sign of educational failure and poor work attitudes, thus accounting in part for the productivity problem. Government commissions were set up to study the perceived productivity crisis.

The stagflation of the 1970s spooked the stock market, particularly as the Federal Reserve pushed up interest rates to halt inflation acceleration. But it is important to note that sometimes even a fair coin will produce a string of tails. And just as a fair coin can produce a string of tails on occasion, sometimes it will also produce a string of heads.

In the 1990s, we experienced such a string of heads. The dollar tended to appreciate, holding down inflation through import competition. Excess demand at home could spill over and tap slack international markets rather than raise domestic prices. This tendency was aided by bad fortune abroad. A soft Europe made up of countries trying to meet the criteria to join the Euro zone, a Japanese economy weakened by the bursting of a stock and real estate bubble, a slump in Mexico brought on by a currency crisis, and a later currency crisis in Asia all held down world prices and led to an international scramble to export to the U.S.

With inflation in check, the Federal Reserve could avoid slowing the surging U.S. economy (and thus the California economy) through anti-inflation interest rate hikes. Indeed, in 1998, interest rates were cut during the Asian crisis. And they have come back only gradually since. American consumers went on a

spending binge fueled by a dramatically rising stock market. Technology and Internet-related shares rose dramatically in value, producing a wealth effect that seemed to make ordinary saving superfluous. The nickname for the economic coin toss outcome in the 1990s was the "New Economy."

Just as explanations abounded for the string of tails in the 1970s, so, too, were there handy explanations for the string of heads in the 1990s. It was said that technology had so boosted productivity that core consumer price inflation (excluding food and energy) was being held in check. Measured productivity did indeed seem to accelerate, reversing the sluggishness that had set in the 1970s.

But there are questions about these interpretations. During the 1990s, there was considerable agitation to "fix" official price indexes, especially the Consumer Price Index (CPI). The official reasons were that the CPI did not adequately reflect quality improvements and did not allow for consumer substitution possibilities. In fact, a major motivating factor was to hold down CPI-linked cost-of-living adjustments in Social Security which appeared expensive in the light of the coming retirement of the baby boom. Related changes in statistical methodology also affected the national income accounts. By holding down officially recorded inflation, statisticians thus boosted "real" GDP growth and therefore measured productivity increases.

In particular, "hedonic" quality adjustments to computer prices have produced enormous measured gains in productivity in computer manufacturing itself (Mitchell 2000b). Thus, as graph 3 shows, the supposed productivity boom is heavily concentrated in durables manufacturing, the sector containing computers. In nondurables and non-manufacturing (including services), no productivity boom is apparent. Given problems that have become inherent in interpreting official data on GDP and inflation, the best indicators of the condition of the national economy are now those linked to the labor market: employment, unemployment, and wage change.

Pay increases have generally been moderate, despite widespread reports of labor shortages, although some acceleration can be seen (Mitchell 2000c). New economy advocates seek to explain this moderation by proposing that "everyone" now receives stock options – not measured in the official wage indexes – as part of their compensation package. But that isn't really true. Some people, mainly professionals and managers do receive stock options. However, when the wage data are confined to production and non-supervisory employees – folks who don't usually receive options – they have shown the same moderation as the broader occupational pay indexes. In fact, given other trends, such as price inflation, wages as measured by the ECI were more or less following an expected path after a pause in 1999. The tight labor market was leading to an acceleration in nominal pay increases, one of the factors leading the Federal Reserve to raise interest rates.

There is no doubt that the national economy boomed in the late 1990s and that the stock market played a role. There is no doubt that unemployment fell dramatically and that other labor market indicators – such as new claims for unemployment insurance – also suggested a very tight labor market. However, measurement changes make comparisons with past performance in terms of real GDP and productivity growth subject to question. What is clear is that the good times nationally - however measured, have helped California. And some of the good times – namely the rise in value of technology stocks – originated in California.

At the national level, the UCLA Anderson Forecast has projected an eventual slowdown – not a recession – as past and future Federal Reserve interest rate hikes take hold. This prognosis assumes that while there might be a stock market "correction" of some type, a more drastic financial meltdown will not occur. Such a meltdown, however, is the greatest risk to the national and state economies.

The Short-term California Labor-Market Outlook

Employment growth in California accelerated during 1999, reaching an annualized rate of 4 percent in the second half of that year and early 2000 (Lieser 2000a). As a result, the gap between California and U.S. unemployment rates continued to narrowed and is expected to disappear. (table 1) Exports from California expanded as the world economy generally improved. Growth in Mexico and relative sluggishness in Japan moved Mexico into the top-ranked destination for California goods in 1999. That pattern continued into early 2000. Exports to Mexico from California are four times as large as sales to

all the rest of Central and South America. Note that the category "industrial machinery" on table 2 includes computers. Thus, California's export goods have a definitely high-tech flavor.

Payroll employment data are annually "benchmarked" to a complete job count based on unemployment insurance tax records. Table 2 shows the regional distribution of employment and change in employment during 1999 within California. Central California remained a soft spot in the California economy with high unemployment. Northern California showed the impact of the Silicon Valley expansion with extremely low unemployment rates in San Jose and San Francisco. The former's rate of employment growth has been hindered by a severe labor shortage. In Southern California, the Orange metropolitan area has achieved an extremely low, Silicon Valley-style unemployment rate. Los Angeles remained something of a hole in the regional economic doughnut with relatively high unemployment and only a modest pace of employment increase. While the annual non-farm payroll employment count for California as a whole passed its 1990 (pre-recession) peak in 1996, the Los Angeles-Long Beach metropolitan area was just getting back to its prior peak in early 2000.[2]

Industries linked to real estate showed high rates of job growth in 1999 and early 2000. Both residential and nonresidential construction were exhibiting rising trends in 1999 and are projected to continue in that direction. Residential construction output, however, remained well below the peak rates of activity seen in the decades of the 1960s, 1970s, and 1980s, an issue taken up below. Areas of strength in 1999 and early 2000 included construction employment (graph 4) and jobs in lumber and wood manufacturing. Table 3 shows past and projected rates of employment growth in selected industries and sectors.

Aerospace employment resumed its decline in 1999 after a period of relative stability in 1997-98. The decline occurred despite projected and actual increases in real U.S. defense spending. Apparel, which had been an expanding sector until the late 1990s, remained a weak area in 1999, as it adjusted to competition from low-wage imports. Corporate restructuring in banking produced a notable employment decline in the mid-1990s and the financial sector remained stagnant in 1999. Electronic and computer manufacturing remained flat in 1999, but renewed exports demand should produce future improvements.

Strong areas in employment growth are found in private and public services. Motion picture employment has been expanding despite fears of "runaway" production to Canada. The business services sector has been increasing rapidly. Some of the growth is due to outsourcing of activities by manufacturing and other employers such as payroll accounting and office cleaning to specialized service firms. Temporary help supply agencies are also included in the business services sector. State and local government employment has been expanding, fueled in part by rising tax revenue and a growing need for school teachers due to policies emphasizing class-size reduction.

Public sector employment growth, of course, can only be sustained if tax revenue continues to fill up government coffers. California consumers have been following their national counterparts on a spending binge, thus producing strong sales tax receipts. Some of this exuberant spending undoubtedly reflects the wealth effect stemming from the stock market. But there are also direct state tax receipts from capital gains in the stock and real estate markets. California Department of Finance estimates provided to the UCLA Anderson Forecast suggest that over 8 percent of tax receipts to the State's general fund will have come from capital gains in 2000 – up from 2-4 percent in the mid-1990s. Initial Public Offerings (IPOs) have produced disproportionate wealth effects in California. One estimate, based on IPOs in California during 1997-99, suggests that the 134,000 employees in these firms who were eligible for equity stakes acquired equity interests of about $500,000 each! (Mattey 2000).

Clearly, a stock market reversal would have a significance adverse impact on state and local revenue, thus dampening the demand for government employees. It would also potentially affect other asset markets – notably real estate – which as indicated above has been a source of employment growth. In part supported by stock market gains, California single-family housing prices stood 50 percent above the national average in 1999. In the longer-term such a housing cost differential can discourage employment growth in the State by making housing unaffordable and hindering worker recruitment. But in the short-term, a decline of housing prices could aggravate an economic downturn through a negative wealth effect

and a loss of consumer confidence. Such a sequence was part of the California recession story of the early 1990s.

In short, just as there is a significant risk to the national economy posed by a stock market reversal, so – too – is there a major risk to California. Indeed, because California has a disproportionate interest in the high-tech and Internet firms that drove stock market increases through 1999, it is more vulnerable than other states to a prolonged market slump. As the experience in Japan over the past decade suggests, such financial slumps can produce a prolonged period of sluggish economic performance and chronic soft labor markets.

The Long-term California Labor Market Outlook

Over long periods of time, the year-to-year ups and downs of the business cycle cannot be projected (Lieser 1999). The UCLA Anderson Forecast anticipates that the State's population will rise about 1.6 percent per year through 2020 while the labor force is expected to rise at an annual rate of 1.9 percent. (table 4) Thus, a significant rise in gross labor force participation is expected. Obviously, such growth in population and workforce will pose many challenges including environmental, transportation, and housing. Housing poses a special challenge since there are many barriers to expanding the housing supply. A "Santa Barbara" policy of tightly restricting development ultimately will produce such high housing costs that employment and population growth will be restricted. Completely open development, on the other hand, raises issues of quality of life.

The UCLA Anderson Forecast projects a tilt in employment mix toward services and finance-insurance-real estate. These projections are based on the following assumptions:

- Aerospace employment will reach a critical mass and thereafter will be sustained, although growth of employment and production will be very limited. R&D activities in this sector will continue. California offers advantages to R&D that are not available to actual manufacturing of aerospace products.
- Despite competition for land and water, agricultural output in California will continue to increase. However, high productivity growth will continue to produce a decline in farm employment.
- Retail employment in finance and business services will increasingly shift to the Internet. However, there will be continued need for employees to deal with such functions as credit approval and regulatory compliance. There will also continue to be strong demand for information services employment.
- Construction in California seemingly has shown a decline in productivity, with substantial reductions in residential and non-residential construction and yet more employees. This anomaly makes employment projections uncertain. It is assumed that gains in construction jobs will be modest.
- The Internet could have a negative effect on employment in wholesale and retail trade. Some employment gains are nonetheless projected, but wholesale/retail trade employment will slip as a fraction of overall employment.

Although California has been a relatively youthful state compared with the overall U.S. (thanks to in-migration from domestic and foreign sources), it will share in the uncertainties posed by the retirement of the baby boom. Some of these uncertainties are showing themselves today in debates over how to "save" Social Security and Medicare. Issues relating to private pension plans, saving, and retiree medical benefits are also beginning to surface. Even if stock market gains of recent years are sustained, as the baby boom reaches retirement age, its members will want to cash out their holdings. They will have to sell their assets to someone.

In the past two decades, the U.S. has financed its consumption binge by borrowing from abroad, thereby becoming the world's largest debtor. But other developed countries have baby boom/baby bust demographics roughly similar to those of the U.S.; they, too, will want to cash out their claims on the U.S. as their populations age into retirement. Thus, the short-term financial uncertainties discussed in the

previous section have their counterpart in longer-term uncertainties in the interaction of demographics and finance. The longer-term projections for California do not explicitly assume a particular resolution of these issues. Readers should keep in mind that it is simply assumed that in the long run California's population will continue to grow relative to the nation as a whole and that jobs will be available for those of workforce age in the State.

California's employers depend on the continuing inflow of new entrants into the labor market. At present, there is much concern about the quality of K-12 education in the State. But other than class-size reduction, there seems to be little consensus on remedies for public education. A poor quality K-12 system can only aggravate the degree of income inequality that has particularly characterized California (Reed 1999). Poor basic education threatens the State's labor supply; resulting labor-market outcomes threaten social and political stability in California.

Summary

- The California economy suffered a more severe recession than the U.S. in the early 1990s, but since the mid-1990s has been experiencing a solid recovery.
- California's economy, although large, is not independent of national trends. It is vulnerable to the financial risks that face the overall economy. In certain respects, it is more vulnerable to a major stock market crash than the U.S. as a whole due to the presence of "New Economy" industries in the state.
- The long-term outlook for California is for more rapid population and employment growth than the nation. But questions remain about the supply of housing and the quality of education for the growing population. Income inequality remains a troubling issue for the state.

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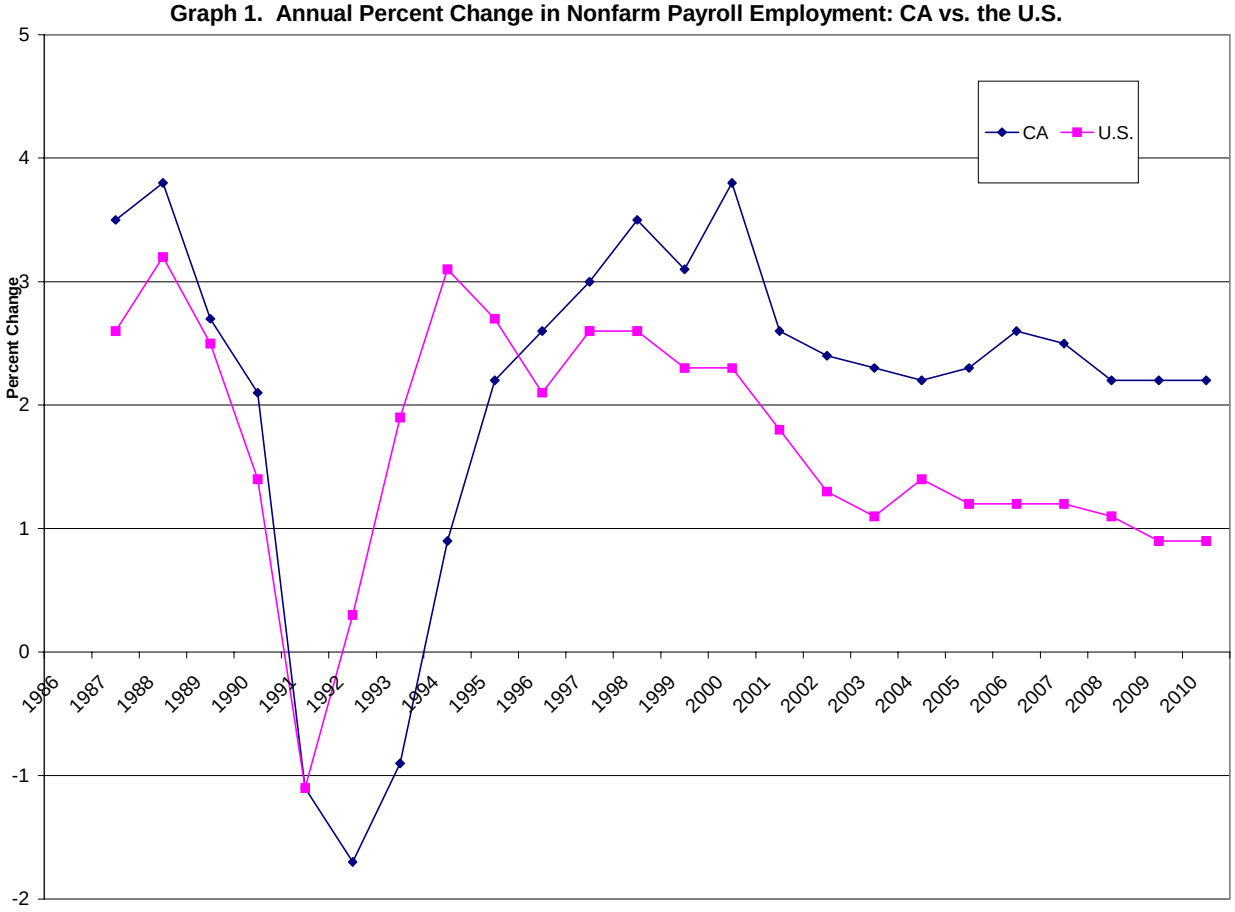
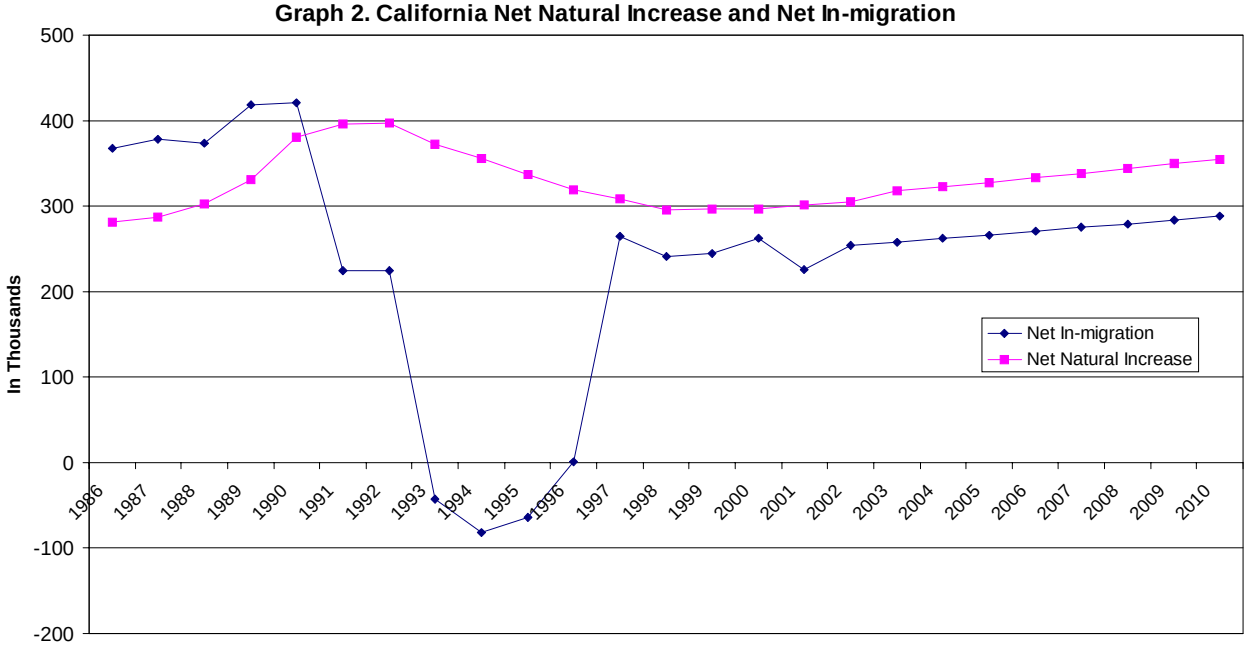
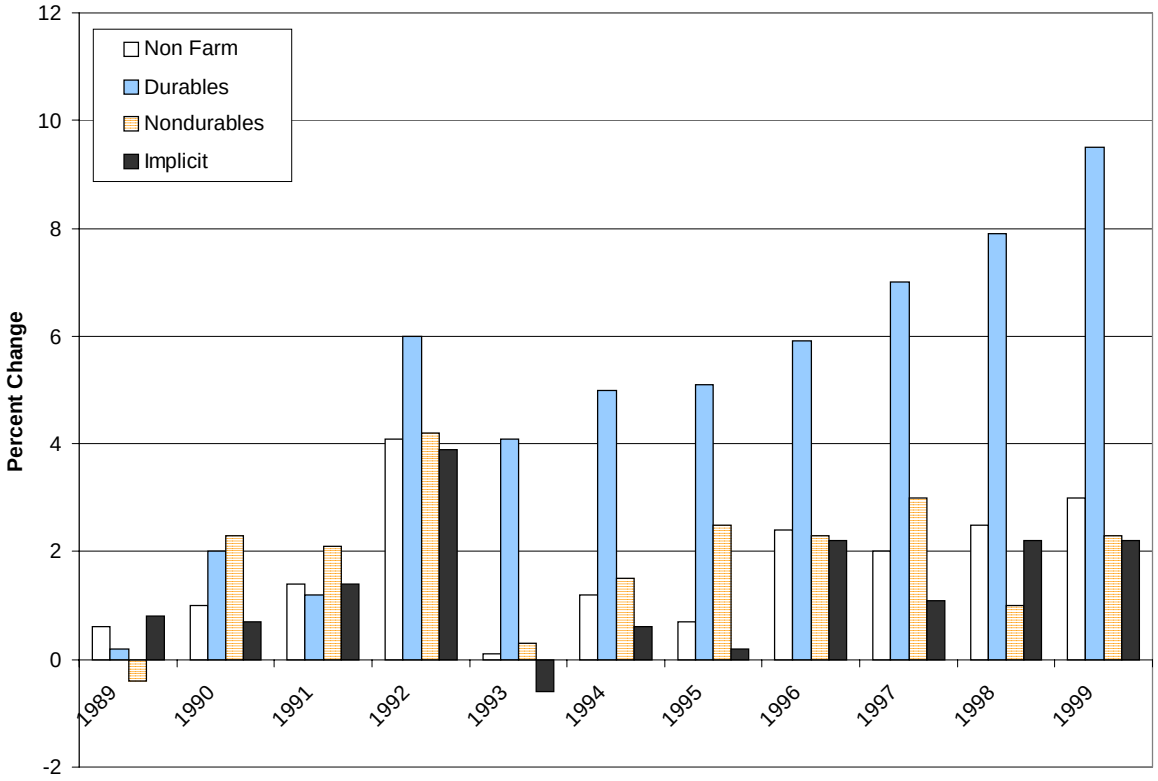
Graph 1. Annual Percent Change in Nonfarm Payroll Employment: CA vs. the U.S.



Graph 2. California Net Natural Increase and Net In-migration



Graph 3. Sectoral Productiviy Measures: Year-Over-Year Change



Graph 4. California Employment in Construction

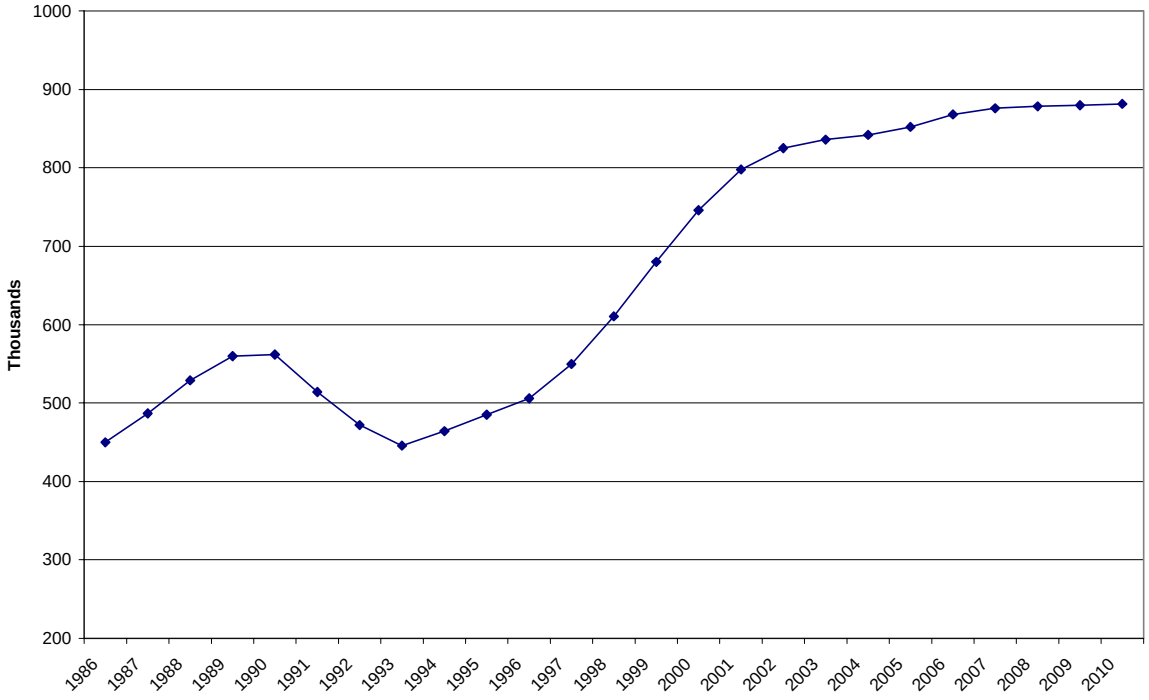


Table 1: UCLA Anderson Forecast as of June 2000: Unemployment and Payroll Employment

	1998	1999	2000	2001	2002
Unemployment Rate:					
U.S.	4.5	4.2	4.2	4.6	4.6
California	5.9	5.2	4.8	4.5	4.6
Non-farm Payroll Employment Growth:					
U.S.	2.6	2.2	1.9	1.1	1.2
California	3.6	3.1	3.8	2.6	2.5

Table 2: Recent Trends in Employment in Selected California Metropolitan Areas

	Non-farm Employment 1999 (000)	Employment Growth at Annual Rates (%) 1999	2000 YTD
SOUTHERN	7,856	2.9	3.0
Los Angeles	4,005	1.6	2.2
Orange	1,345	3.5	3.3
Riverside -S.B.	934	5.8	5.5
Ventura	263	4.2	4.1
Santa Barbara	159	2.5	2.4
San Diego	1,150	4.0	3.1
CENTRAL	971	2.9	3.4
Fresno MSA	288	3.2	3.6
Kern	189	2.3	2.9
Kings	29	3.3	3.2
Merced	52	0.8	2.7
Tulare	94	2.2	3.8
Modesto	141	3.1	4.0
Stockton MSA	178	3.9	3.2
NORTHERN	4,148	3.2	2.8
San Francisco	1,073	3.0	2.8
Oakland MSA	1,010	3.5	2.5
San Jose	969	1.3	2.1
Sacramento	687	5.3	3.8
Santa Cruz	95	2.9	1.3
Sant Rosa	179	3.7	3.4
Vallejo - Napa	165	5.3	4.8

*Year to Date through May

** Not seasonally adjusted

Table 3: California Employment (Levels)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
NONFARM						**Payroll Survey (Thousand)**						
	12,359	12,153	12,045	12,159	12,421	12,744	13,127	13,595	14,016	14,502	14,882	15,255
Mining	37	35	35	32	30	29	29	25	24	24	24	23
Construction	514	472	446	464	485	506	550	611	681	735	782	797
Manufacturing	1,971	1,891	1,805	1,777	1,794	1,852	1,914	1,951	1,922	1,936	1,936	1,952
Nondurable Goods	702	708	695	698	705	712	724	722	719	757	728	737
Durable Goods	1,269	1,182	1,110	1,079	1,090	1,139	1,190	1,229	1,203	1,209	1,209	1,216
High Technology	638	584	527	484	479	500	521	534	511	499	500	516
Electronics	330	310	302	294	310	334	353	362	352	349	348	362
Computers	101	95	92	83	85	90	95	95	98	96	100	105
Communications Equipment	29	30	31	31	35	38	38	39	40	40	40	41
Electronic Component	133	122	118	120	129	142	152	159	152	150	146	149
Measuring & Control	68	63	61	59	61	64	67	69	62	63	63	66
Aerospace	308	274	225	190	169	165	168	172	159	150	151	154
Aircraft & Parts	146	132	108	93	84	83	85	89	83	78	77	78
Missiles & Space	68	58	47	36	29	26	25	25	23	21	21	21
Aerospace Instrument	94	84	71	61	55	56	58	57	53	51	53	55
Trans., Public Utilities	613	607	611	619	630	642	664	695	718	735	751	764
Trade	2,922	2,835	2,812	2,845	2,915	2,974	3,048	3,123	3,206	3,299	3,362	3,432
Finance, Ins., R.E.	799	792	794	771	732	737	758	799	821	841	871	892
Services	3,411	3,426	3,462	3,558	3,728	3,891	4,025	4,224	4,410	4,642	4,821	5,016
Government	2,091	2,096	2,081	2,093	2,107	2,113	2,140	2,166	2,235	2,290	2,335	2,380
Federal	347	346	336	325	312	296	285	273	268	264	263	262
State & Local	1,743	1,750	1,744	1,768	1,795	1,818	1,856	1,894	1,967	2,026	2,072	2,118
FARM	342	351	364	379	373	407	413	406	411	433	436	435
						Household Survey (Thousands)						
Total Unemployment	13,996	13,961	13,895	14,065	14,141	14,384	14,942	15,355	15,722	16,180	16,608	17,043
Unemployed	1,172	1,430	1,439	1,322	1,204	1,119	1,004	968	864	779	809	852
Labor Force	15,169	15,391	15,334	15,388	15,345	15,504	15,947	16,324	16,586	16,959	17,417	17,895
Unemployment Rate (%)	7.7	9.3	9.4	8.6	7.8	7.2	6.3	5.9	5.2	4.6	4.6	4.8

Table 4: Long-term Projections for California from the UCLA Anderson Forecast (thousands)

	1999	2020	Annual Rate of change 1999-2020
Population	34,133	47,742	1.6%
Labor Force	16,586	24,826	1.9
Household Employment	15,722	23,500	1.9
Nonfarm Payroll Employment	14,016	21,052	2.0
Mining	24	20	-.1
Construction	681	796	.7
Manufacturing	1,922	2,181	.6
Transportation, public utilities	718	980	1.5
Trade	3,206	4,515	1.6
Finance, insurance, real estate	821	1,302	2.2
Services	4,410	8,229	3.0
Government	2,235	3,029	1.5
Farm wage employment	411	350	-.8

Endnotes

[1] For several months, the Los Angeles Police Department illegally halted migrants from other states at the California border who appeared to be heading for Los Angeles in the so-called "bum-blockade."

[2] However, the household survey, which includes farm workers, unpaid family workers, and self-employment reports that the 1990 peak for Los Angeles-Long Beach was surpassed in 1998. Household survey data are subject to whatever revisions are made in the light of the 2000 Census of Population.

CHAPTER 2

TRENDS IN EARNINGS INEQUALITY

PAUL M. ONG AND MICHELA ZONTA

I. Introduction

One of California's most notable achievements is a near doubling of the number of jobs from about eight million in the early 1970s to over 15 million by the end of the century. The change is not just numerical. Globalization, immigration, new technologies, and other forces have transformed the world of labor. Despite the economy's remarkable ability to absorb millions, economic inequality remains a persistent problem. Several national and California studies have shown that today's economic expansion, which has been one of the most remarkable in American history, has failed to close the gap between the "haves" and the "have nots."

The level of inequality has moved up and down over time (Williamson and Lindert 1980; Henle and Ryscavage 1980; Harrison and Bluestone 1988; Levy and Murnane 1992; Karoly, 1993; Danziger and Gottshalk 1995). Income inequality experienced a dramatic decline between the Depression years and the end of World War II, and fluctuated within a relatively narrow band from the late 1940s until the mid-1970s. Inequality increased rapidly in the 1980s, but the underlying structural changes can be traced to the previous decade. Following the oil-price shock of 1973, the United States experienced a period of protracted economic stagnation. The 1982 recession, when unemployment climbed to 9.7 percent, gave impetus to a restructuring of the economy and the labor market. With the use of new and more flexible ways of organizing production, casual and informal employment has grown, accompanied by increased job competition and downward pressure on wages. A disproportionate share of job growth has occurred in both high-and-low-technology sectors. The polarization of occupations between high-pay/high-skill and low-pay/low-skill workers has been accompanied by the shrinking of the middle class.

The consequences of the restructuring can be seen in statistics for the 1990s (Danziger and Gottshalk 1995; Darity and Myers 1998; Ryscavage 1999; Utendorf 1999; Gottschalk 1997; Daly and Valletta 2000). The incomes of the affluent grew much more rapidly than those of average families. In 1991 the poorest fifth of families received 4.5 percent of total family income, while the richest fifth received 44.2 percent. In 1995 the 10 percent of the population at the top of the earnings distribution received nearly 36 percent of all earnings in the U.S., while the upper two deciles combined received over 53 percent of total earnings. Under these conditions, this nation was unable to reduce the poverty rate, which merely fluctuated with the business cycle.

Since the 1970s, earnings inequality both between and within groups evolved in very different ways. The earnings of women grew faster than did the earnings of men, thus reducing the gender gap in weekly earnings from 60 percent in the 1960s to less than 40 percent in the 1990s. Earnings inequality among males grew due primarily to the deteriorating economic status of those in the lower portion of the income distribution. On the other hand, inequality among women declined through the mid-1970s and then grew through the 1990s. In terms of age, the incidence of employment in high earnings positions has been much greater for older workers, whereas the incidence of low-wage employment for young persons has increased from 23 percent in 1979 to 42.5 percent in 1994 (Ryscavage 1999). The less educated lost relative to the more educated, and more experienced workers gained relative to less experienced workers (Gottshalk 1997). Finally, interracial inequality persisted during the 1990s despite the public policy interventions of the 1970s, and this was accompanied by widening gaps within racial groups (Darity and Myers 1999).

Researchers generally agree that inequality can be attributed to a combination of demographic and economic factors. Over the last three decades, the absolute and relative number of women and immigrants in the labor market have increased substantially, shifting the composition of the labor force toward historically disadvantaged groups. Technological change, particularly the rapid growth in the widespread use of computers, has altered the relative demand for workers by education (Bound and Johnson 1992; Katz and Murphy 1992). Industrial restructuring, driven by globalization, has shifted jobs away from manufacturing, decreased demand for less skilled blue-collar workers, and increased the demand for high-skilled workers (Murphy and Welch 1992). Other studies point to institutional changes, such as the declining percentage of workers belonging to unions and a weakening of regulations (Freeman 1993; Danziger and Gottshalk 1995).

Many of the national factors have affected California (Reed 1999; LAO 2000; Daly and Royer 2000). From the early 1970s to the late 1990s, income inequality in this state increased steadily (Chamberlain and Spillberg 1991; Reed et al. 1996; Reed 1999; Bernstein et al. 2000; California Budget Project 2000). Similar to national trends, the growing inequality in California has been the result of income growth at the top of the distribution and income decline at the very bottom. Tax-return data for 1975 and 1998 reveal that a shift has occurred in the distribution of adjusted gross income, with the share attributable to the top 20 percent of returns rising and that for the bottom 80 percent falling (Legislative Analyst's Office 2000). This shift has reflected a large increase in real average earnings reported at the high end, contrasted with declines in the low and middle portions of the income distribution.

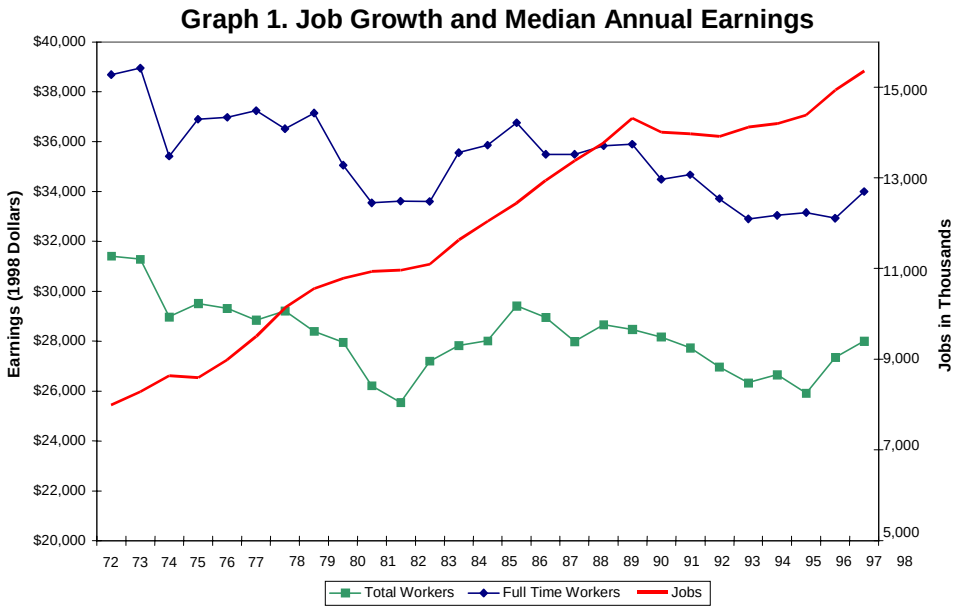
Economic inequality is also apparent at the regional level. The 1970s and 1980s was a period of a "widening divide" between the "haves" and the "have nots" (Ong 1989), and the economic recovery of the late 1990s has done little to reverse this trend (LAANE 2000; Ong 2000). The degree of income inequality is also high in the San Francisco Bay Area, where a majority of jobs in the state's rapidly growing high-tech industries are located (Joint Venture: Silicon Valley Network, 1997; Legislative Analyst's Office 2000).

Race and gender remain key factors in defining inequality in the state (Ong, 1999). Despite considerable gains made during the 1960s, minorities in California gained little if any ground during the following decades and continued to suffer from systematic lower educational attainment and discrimination. Progress has been made in closing the gender gap, particularly among non-Hispanic Whites; however, there is still a substantial difference in women's and men's earnings that is due in part to persistent gender segregation.

To understand better the magnitude and characteristics of inequality among workers in California, this essay presents and interprets statistics on annual earnings compiled from the March Annual Demographic Files of the Current Population Survey. The data cover the period from 1973 to 1999 for the State of California. Income data are for the prior year (for example, a respondent to the 1973 survey reported his or her 1972 income) and are adjusted to 1998 dollars. The estimates are based on respondents 25 to 60 years old with a minimum annual earning of $1,000 in 1998 dollars. The sample size ranges from over 3,100 to 5,600 per year, averaging about 5,000. Although individual estimates are subject to a margin of error, the patterns in the long-term trends are reasonably reliable. Along annual statistics, the chapter also presents more detailed analysis for three periods that are roughly equivalent in terms of the business cycle -1972-74, 1984-86, and 1996-98. The section on unions is based on figures compiled from the Current Population Survey Earnings Files for the years from 1983 to 1999.[1] The rest of this chapter is organized into three parts. Part II presents overall trends of job growth and earnings inequality during the past three decades. Earnings inequality increased during the 1970s and 1980s, and climbed with the recession of the early 1990s. Inequality declined with the most recent economic expansion, but not down to the levels of the early 1970s. Part III examines four dimensions of growing earnings inequality: education, regions, socioeconomic groups, and unionization. Over time, inequality has increased between those with and without high education, between those living in and outside the "new-economy" regions, and by gender and race. At the same time, unionization has declined, undermining labor's ability of speaking with a collective voice. Part IV analyzes gender and racial inequality in greater detail. With greater attachment to the labor market by women, the gender gap has diminished but has not been eliminated. At the same time, inequality within gender has increased. The data also show a persistent high racial inequality for African Americans and a rise in racial inequality for Latinos.

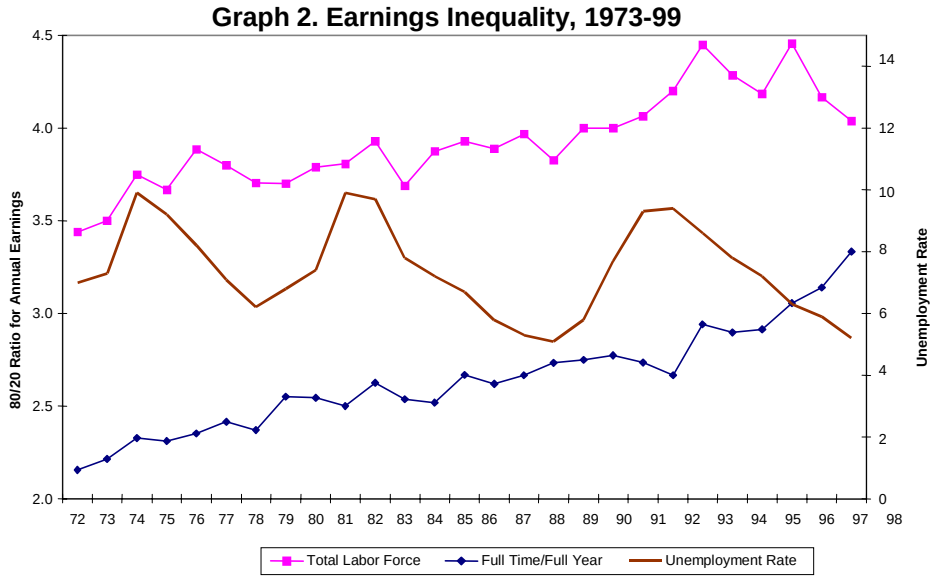
II. Trends in Earnings

In California, job growth has been accompanied by a secular decline in median annual earnings (see graph 1).[2] Median annual earnings for the total labor force reflect cyclical fluctuations, climbing with an expansion and falling with business cycle recessions and higher unemployment rates. Median annual earnings fell abruptly after the oil crisis of 1973 and again during the 1981-1982 recession, when unemployment rates reached almost



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999 and State of California Employment Development Department

10 percent. After a short period of steady income growth, median annual earnings began falling again in the late 1980s and early 1990s. Median annual earnings did not begin climbing again until the recovery of the late 1990s. There is, however, an underlying long-term downward trend. At the beginning of the time period, the average for all workers was roughly around $31,000 but fell by a tenth to about $28,000 two-and-a-half decades later. This drop cannot be explained by changes in the relative number of part-time or part-year workers. In



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999 and State of California Employment Development Department

fact, their portion of the labor force declined during this period, from approximately 34 percent to 27 percent; consequently, the plot for the earnings of full-time and full-year workers shows an even greater secular decline.

As median earnings dropped, the divide between those at the top and those at the bottom has widened. Graph 2 traces the trends in earnings inequality from 1972 to 1998 using a ratio of the annual earnings of workers at the 80th percentile to those of workers at the 20th percentile. The 80/20 index for all workers, depicted by the top line, rose steadily from 1972 to 1998, with peaks in 1993 and 1996. The business recovery of the late 1990s did lower the ratio to close to the levels of the late 1980s, but not to the levels of the 1970s and early 1980s. Changes in earnings inequality for the total labor force are moderated by the relative numbers of full-time, full-year (FT/FY), which rose from 66 percent in 1972 to 73 percent in 1998. The inequality index for FT/FY workers is lower than the index for all workers because workers with low annual earnings tend to be part-time and/or part-year workers. The bottom line in graph 2 traces the 80/20 ratio for FT/FY workers, which shows a rather continuous rise in equality. What is particularly noticeable is the increase in the late 1990s, suggesting that economic expansions were not sufficient to offset a growing widening divide for the FT/FY work force. In other words, a disproportionately large number of the FT/FY jobs are being created at the bottom end.[3]

Table 1 provides insights into how four class segments have fared. Despite a modest increase over the years, median annual earnings for the bottom remained relatively stable in part because minimum-wage laws provided a floor below which wages could not legally fall. Furthermore, lower hourly wages were offset by the decline in part-time or part-year employment. In other words, many maintained their meager earnings level by working more hours. At the other extreme, the average for the top quarter increased by more than a tenth. This stratum includes a disproportionate large number of workers benefiting from the "new economy."[4] The middle groups, on the other hand, were hard hit. During the last quarter of the 20th Century, the median for the upper middle dropped by nearly a tenth, and the median for the lower middle dropped by nearly a fifth.

Table 1. Estimated Median Annual Earnings by Quartile Groups (1998 Dollars)

Years	Bottom Quarter	Lower-Middle Quarter	Upper-Middle Quarter	Top Quarter
1972-74	$8,736	$24,321	$37,193	$56,646
1984-86	$8,660	$21,670	$36,058	$58,394
1996-98	$8,964	$20,664	$35,055	$63,335

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

The diminished fortunes of those in the middle have been interpreted as a decline in the middle-class, but the picture is more complex. The absolute number of those earning a decent middle-class income increased, but their share of the labor force decreased.[5] At the same time, much of the economic redistribution has occurred through an expansion of those making poverty-level earnings.[6] Regardless of whether the trends are characterized by a decline in the economic status of the middle or an expansion of the bottom, there is no question that there is a growing earnings disparity.

III. Four Dimensions of Inequality

As discussed earlier in this chapter, there are numerous explanations for the growing earnings inequality. One important factor is the change in the economic returns to schooling, and this is evident in the figures in table 2. Those with at least a bachelor's degree were able to maintain their earning power, while those with only a high-school education lost ground. The group most impacted is comprised of those with less than a high school education. Their average earnings plummeted. As a consequence of the divergent paths, the relative value of education has changed dramatically. For every dollar earned by a worker with less than a high-school

education, a worker with a college degree earned $1.83 in the early 1970s. For the late 1990s, the figure is an astonishing $3.09.

The observed difference in earnings by education, however, may be caused by other factors. For example, minorities tended to have lower levels of education and suffer from racial discrimination; consequently, the observed earnings gap in education may be due in part to racial differences. Statistical techniques can be used to help identify the independent contribution of education.[7] After controlling for other factors, the analysis shows a significant increase in the returns for each additional year of education. One more year of education increased earnings by 5 percent in the early 1970s, and the rate jumped to 9 percent by the late 1990s.

Table 2 Estimated Median Annual Earnings by Educational Attainment (1998 Dollars)

Years	Less Than High School	High School	Some College	4 Plus Years of College
1972-74	$23,289	$27,723	$31,763	$42,665
1984-86	$14,999	$24,818	$29,533	$42,354
1996-98	$13,370	$22,400	$29,130	$41,339

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

The distribution of earnings within educational categories varies by groups. Those at the low end, i.e., those with less than a high school degree, experienced a decrease in inequality. The 80/20 ratio for this group fell from 3.7 in the early 1970s to 3.2 in the late 1990s, and this change is due to a downward compression of earnings.[8] On the other hand, the 80/20 ratio for those with a college degree shows only minor fluctuations. The index averaged 3.2 in the early 1970s, decreased to 3.0 in the mid-1980s and increased to 3.3 in the late 1990s.

Regional economic trajectories also contribute to increasing earnings inequality. Different parts of the state have a distinct economic base. For instance, while the entertainment and aerospace industries account for a large part of Southern California revenues, high-technology industries are heavily concentrated in the Bay Area, and agriculture represents the major sector in the Central Valley. Because economic sectors have fared differently, the regions and their labor markets have also fared differently. This can be seen in recent unemployment rates and inequality levels. In 1999, the unemployment rate in Los Angeles CMSA was 5.1 percent, compared to 3.1

Table 3 Estimated Median Annual Earnings and Inequality by CMSA (1998 Dollars)

Years	Los Angeles-Riverside-Orange	San Francisco-Oakland-San Jose	Rest of California
1972-74	$29,818	$33,277	$29,269
1984-86	$28,247	$34,468	$26,780
1996-98	$26,081	$33,177	$25,268
		80/20 ratio	
1972-74	3.6	3.2	4.0
1984-86	3.9	3.4	4.1
1996-98	4.4	4.0	4.1

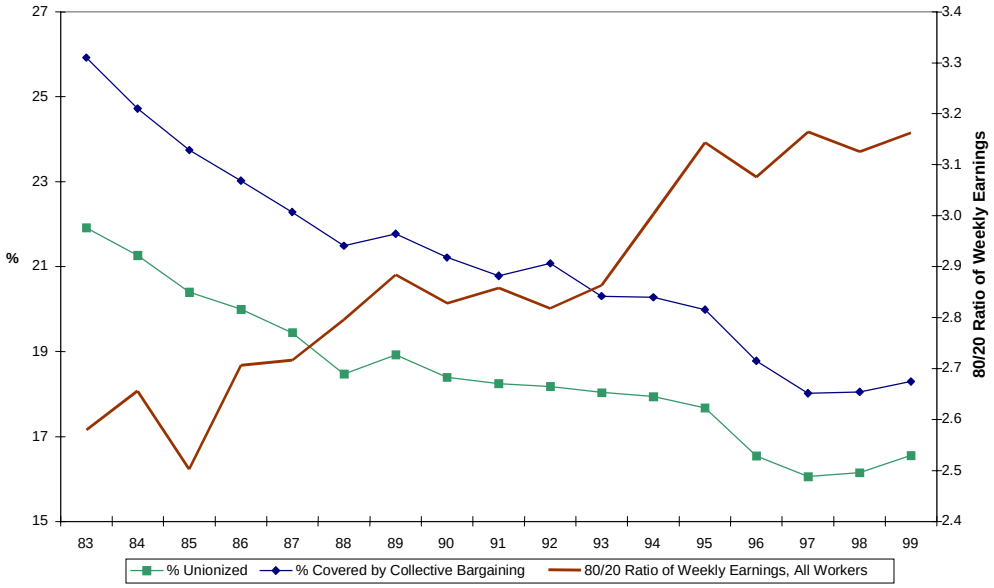
Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

percent in San Francisco CMSA, and 7 percent in the rest of California.[9] Some agricultural-based counties still suffer from double-digit unemployment. Regional disparities are also manifest in earnings. As table 3 illustrates, the San Francisco Bay Area not only has the highest median annual earnings among the three

regions, but it also increased its lead over Los Angeles CMSA and the rest of California. During the early 1970s, there was rough parity, with about a 10 percent difference between the best and worst off regions. By the late 1990s, the inter-regional spread increased to 24 percent. The increasing geographic disparity is driven by an absolute decline in what the typical worker earned in Los Angeles and the rest of California. While the Bay Area enjoys considerably higher earnings than the other two regions, it has not escaped the problem of a worsening distribution of earnings within the region. Inequality in San Francisco as measured by the 80/20 ratio increased rapidly; nonetheless, Los Angeles continues to experience the greatest divide between workers at the top and workers at the bottom.

Changes in unionization rates are also associated with changes in inequality. Unions have played a role in creating the middle class. The typical full-time worker covered by collective bargaining made about $720 per week in the late 1990s,[10] and if he or she worked the full year, that would translate into slightly over $37,000.[11] Unions also moderate inequality by limiting the wage spread among its members. While the 80/20 ratio in weekly earnings ranged from 2.0 to 2.2 for those covered by collective bargaining, the 80/20 ratio for other workers ranged from 2.7 to 3.3. The role of unions, however, has declined. Similar to national trends, the proportion of unionized workers has been falling during the past two decades. Nearly 26 percent of workers were unionized in 1983, but this percentage has dropped to about 18 percent in 1999. (See graph 3) At the same time, inequality in weekly earnings has increased. While the decline in unionization is correlated with the rise in inequality, the direction of causality (whether a drop in unionization leads to greater inequality or vice versa) is difficult to disentangle. It is likely that the changes in these two factors are mutually reinforcing. However, other demographic and economic factors contribute to declining unionization and the widening divide.

Graph 3. Unionization and Inequality, 1983-99



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1983-1999

The drop in union membership, however, is only one aspect of how unionization has changed. The composition of those covered by organized labor has shifted as the economy has become more service oriented and the labor force has become more diverse. (See table 4) Between the early 1980s and late 1990s the number of female workers covered by collective bargaining increased (from 38 percent to 43 percent). While government workers represented about a third of those covered by collective bargaining at the beginning of the period, they represented nearly half in the late 1990s. The proportion of minority workers has also increased among those covered by collective bargaining (from 37 percent to 45 percent). The changing recomposition of those represented by organized labor shows that unions have been able to adapt to the economic and demographic changes, offsetting losses in traditional sectors with gains in others. In fact, the late 1990s appear to be a turning point, ending a long period of decline.

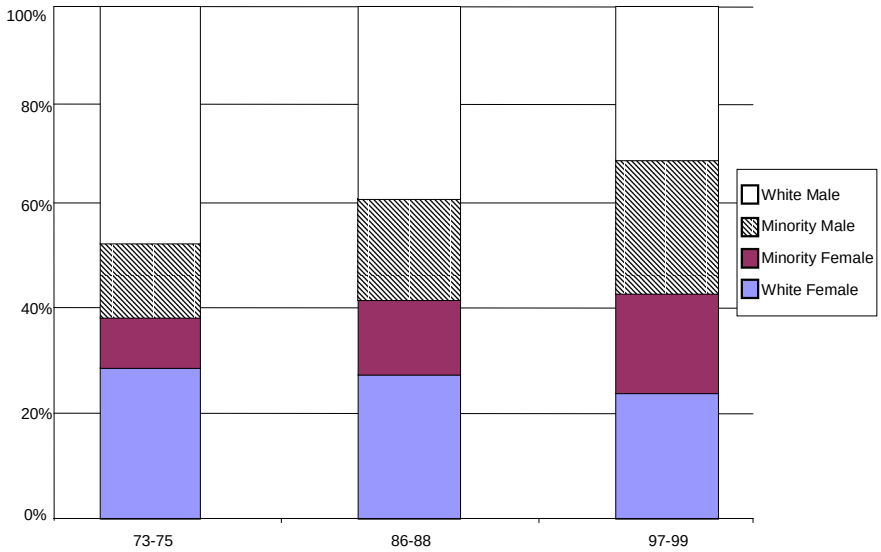
Table 4. Percentage Distribution of Selected Characteristics by Collective Bargaining Coverage and Representative Period, All Workers

	1983-86		1996-99	
	Covered by Collective Bargaining	Other	Covered by Collective Bargaining	Other
Gender				
Male	62%	52%	57%	54%
Female	38%	48%	43%	46%
Class of Worker				
Private	65%	88%	51%	92%
Government	35%	12%	49%	8%
Race				
Non-Hispanic White	63%	67%	55%	52%
Minority	37%	33%	45%	48%
Age				
29 or younger	26%	42%	16%	32%
30-44	43%	36%	45%	42%
45+	31%	23%	39%	26%
Educational Attainment				
High School or less	44%	45%	32%	43%
Beyond High School	56%	55%	68%	57%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1983-1999

The growing diversity evident in unions is also a factor in defining earnings inequality. Economic changes have occurred simultaneously with a demographic realignment. Higher participation rates in paid work have increased the women's share of the workforce from 40 percent in the early 1970s to 44 percent in the late 1990s. The other major demographic change has come from a renewal of large-scale immigration. Newcomers from non-European countries have dramatically altered the racial composition of the labor force. Minorities (African Americans, Asian Americans, and Latinos) comprised nearly a quarter of the labor force in the early 1970s and nearly half at the start of the new century. The racial shift has been driven by differential growth rates rather than an absolute decline in the non-Hispanic White workforce. Despite dropping from an overwhelming majority (77 percent) to a slight majority (55 percent) of the labor force, their ranks climbed from 4.6 million in 1973 to 7.2 million in 1999. The demographic recomposition along gender and racial lines can be seen in graph 4.

Graph 4. Gender Racial Composition



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

There is an unmistakable hierarchy within California's gender-racial matrix, as documented in table 5. Non-Hispanic White males have maintained the dominant position despite a slight decrease in their average earnings. Non-Hispanic White females have made significant progress in closing the gender gap, but still earn noticeably less. In the late 1990s, they earned 62 cents to every dollar earned by Non-Hispanic White males, and the gap was smaller among full-time, full-year workers, 70 cents to the dollar. The fortunes of minority males, however, went in the opposite direction, with median earnings falling by nearly a quarter. By the end of the 20th Century, the typical minority male made less than the typical Non-Hispanic White female. Minority women suffered from a double liability of being non White and female. Despite a modest increase in earnings, their economic position is better described as remaining stagnant at the bottom rung.

Table 5. Estimated Median Annual Earnings by Race-Gender Groups (1998 Dollars)

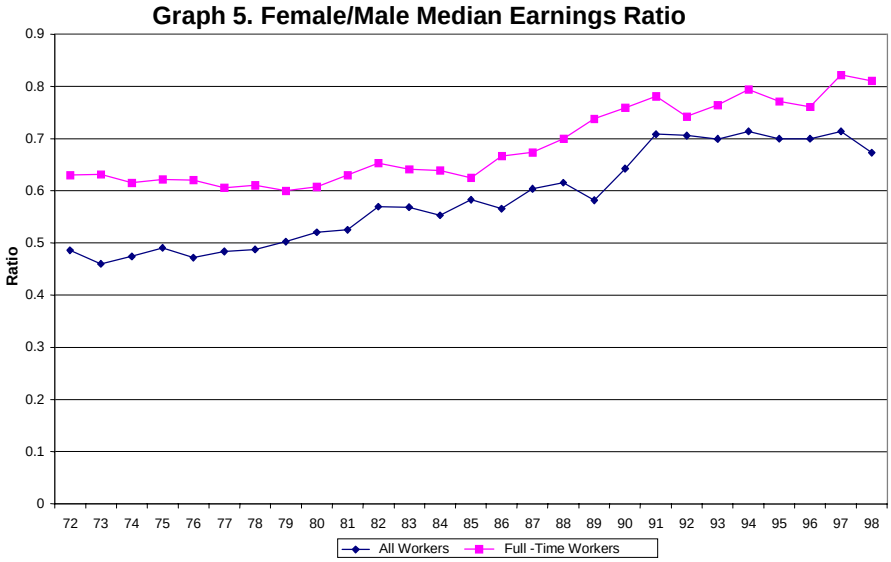
Years	Anglo Males	Anglo Females	Minority Males	Minority Females
1972-74	$42,033	$20,215	$30,600	$16,123
1984-86	$42,844	$23,160	$25,782	$18,244
1996-98	$41,329	$25,669	$23,702	$17,886

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999, All Workers

IV. Gender and Racial Inequality

The gender gap in earnings is an unfortunate reality, and the trends show a mixed picture of progress featuring continuing disparity and growing within-group inequality. A part of the gap is due to differences in the levels of labor market attachment, with women being less likely to be full-time, full-year workers. The proportion of working women employed full-time and year-round increased from about 53 percent in 1972 to 64 percent in 1998. Increasing labor-market attachment contributes to a closing of the gender gap. This can be seen in graph 5. Among all workers, the ratio of female median earnings to male median earnings increased from less than 0.5 in the early 1970s to about 0.7 in the late 1990s. The progress, however, is not due just to an

increase in the relative numbers of FT/FY female workers. The female/male ratio also increased the 0.6 range in the 1970s to the 0.8 range in the late 1990s.



Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey, 1973-1999

The gender gap cannot be explained away by other factors. Statistical techniques are used to identify the independent contribution of gender.[12] The results are listed in table 6, which shows that the earnings gap both between male and female workers and between non-Hispanic White females and males has considerably decreased over time. At the same time, there is still a significant difference. What is interesting is that there are only minor differences between the estimated unadjusted and adjusted gap. In other words, the differences are not due to personal characteristics such as race and education. This suggests that the gender inequality is tied to discrimination.

Table 6. Estimated Gender Gap in Earnings, Full-Time/Full-Year Workers

Female/Male Gap	1972-74		1984-86		1996-98	
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
All Workers	39%	36%	33%	30%	24%	24%
Non-Hispanic Whites	40%	37%	36%	32%	31%	27%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Study, 1973-1999

An alternative way to understand the problematic nature of the progress in closing the gender difference is to examine the ability of women to move out of the bottom end and to climb into the top end. At the beginning of the study period, nearly a quarter of FT/FY male workers earned no more than $26,000, and another quarter earned over $53,000 per year. The proportion of women in the lower brackets, however, decreased from an astonishing high of 65 percent in the early 1970s to 58 percent in the late 1990s. At the same time, the proportion of male workers in the bottom category increased from 23 to 39 percent. The proportion of women in the top earnings category increased from about 2 percent in the early 1970s to 11 percent in the late 1990s. By contrast, the percentage of male workers in the top earnings range remained relatively constant over time. There indeed has been progress, but there is still an enormous gender gap.

While the gender gap has diminished, inequality within each gender has increased considerably over the past three decades. The 80/20 ratio among full-time male workers increased from 2.0 to 3.3 between 1973 and 1999, and the ratio among full-time female workers also increased from 1.9 to 3.2. The average earnings for female workers at the upper-middle and top quarters increased by 12 percent and nearly 30 percent, respectively. At the same time, average earnings for the bottom and lower-middle quarters somewhat decreased, although at a lower rate with respect to male workers. In other words, the gains made by females in narrowing the gender gap have been accompanied by greater inequality among females.

Progress towards eliminating racial inequality is as problematic as gender inequality. The minority-White gap discussed in Part III reveals only a part of the picture. The minority category is comprised of racially and ethnic diverse populations. Although the sample size in the Current Population Survey is too small to adequately quantify the precise differences, existing information indicates that Latino are at the bottom, Blacks occupy a middle position, and Asian are closer to non-Hispanics. Table 7 reports the estimated independent impact of race on earnings for full-time, full-year workers.[13]

Table 7. Estimated Racial Gap in Earnings, Full-Time/Full-Year Workers

	1972-74		1984-86		1996-98	
	Unadjusted	Adjusted	Unadjusted	Adjusted	Unadjusted	Adjusted
Black/White	28%	18%	25%	16%	24%	16%
Latino/White	28%	14%	36%	18%	45%	22%
Other/White	16%	13%	19%	16%	16%	15%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Study 1973-1999

Although the estimated Black/White gap decreased, the changes are not statistically different. In other words, the gap has essentially remained the same for over a quarter century. The estimated unadjusted gap (that is, not accounting for variations in personal characteristics) indicates that Blacks earn a quarter less than non-Hispanic Whites. The adjusted gap accounts for about two-thirds of the difference, indicating that the lower levels of education and experience among Blacks account for only a third of the racial disparity. The remainder is associated with other race-based barriers, such as discrimination and residential segregation.

Hispanics lost ground from the early 1970s to the late 1990s. The unadjusted Hispanic/White gap grew from 28 percent to 45 percent. Lower levels of education and experience, and other variations in personal characteristics account for about half of the disparity. The sizeable increase over time in the Hispanic/White gap is due in part to the growing number of Hispanic immigrants. After accounting for nativity and other personal characteristics, the residual racial gap is 16 percent in the late 1990s, only a third of the unadjusted gap and about the same as the disparity faced by Blacks.

Data limitation precludes any systematic analysis of the Asian/White gap, but the data on others, which are comprised primarily of Asians, indicate this group neither lost nor gained ground. The unadjusted other/White gap remained fairly stable, and very little of the disparity is due to lower levels of education or experience, or other variations in personal characteristics accounts. Moreover, much of the gap is due in part to the growing number of immigrants among Asians. After accounting for nativity and other personal characteristics, the residual racial gap drops to 5 percent in the late 1990s, only a third of the adjusted disparity faced by Blacks and Hispanics.

Persistent racial inequality has been accompanied by persistent high levels of within-group inequality. Among African Americans, the 80/20 ratios were 3.6 in the early 1970s to 3.5 in the late 1990s, and corresponding statistics for Hispanics were 3.5 and 3.4. Among non-Hispanic Whites, the 80/20 ratio increased from 3.5 in the early 1970s to 3.9 in the late 1990s, and the “Other” category experienced a similar increase, going from 3.6 to 4.0.

While gender and race are not the only source of economic inequality, they are among the most troubling and potentially most destabilizing for society. Two of the greatest social movements in this nation’s and this

state's contemporary history are the struggles to eliminate sexism and racism. The data show that developments over the last three decades have contributed to both a widening economic divide and to attenuating it. While it is debatable whether the net result is positive or not, it is obvious that we are far from having a just economy.

V. Conclusion

One of the great ironies is that while California is enjoying a remarkable economic expansion, the state is also suffering from persistent inequality. The earnings of those at the bottom have remained stagnant. One consequence is that too many are forced to struggle to make ends meet. The burden has been felt most heavily by children, with about one out of every two living in low income households.[14] The expanding economy has also failed to uphold the earnings of those in the middle class, particularly those in the lower half of the middle-class. The consequence is that many middle class households are struggling to earn enough to maintain a middle-class life style. Many are forced to either work longer hours or become dual-income families.

The data clearly point to education as a major source of inequality. For the working population, going back to school is not a viable option. The only feasible alternative is on-the-job training; however, California faces an enormous challenge in increasing the level of firm-provided training. Nonetheless, more training is needed, and the state must increase its support of upgrading the existing labor force. More on-the-job training alone, however, will not eliminate racial and gender inequality. The lingering legacy of past racism and sexism, and contemporary discrimination is still a reality. At the same time, the state has fewer tools to address group-based inequality in the post-209 era (Ong 1999). Without affirmative action, the state must redouble its enforcement of anti-discriminatory laws. Moreover, we must address the enormous inequality in our educational supply if we are to avoid the reproduction of racial and gender inequality in the next generation. Finally, we must find ways to strengthen the collective voice for workers. This is being done in part by the reversal in the decline of unionism. At the same time, we must strengthen other institutions that speak for the unorganized.

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Endnotes

[1] Typically referred to as the CPS ORG (Outgoing Rotation Group) files, the CPS Earnings Files include the quarter sample of the Current Population Survey for whom information on earnings and union membership and coverage is available.

[2] The median is the dollar amount dividing the workforce, with one-half earning less and the other-half earning more.

[3] The divergence in the 80/20 ratio trends for full-time, full-year and all workers may be due to the shift in the relative numbers of full-time, full-year workers to all workers. We suspect that, as the economy recovered, a disproportionate number of low-wage, part-time and /or part-year workers moved into full-time, full-year employment as low-wage workers. Consequently, the level of inequality for all workers would drop, while the level of inequality for full-time, full-year workers would increase. Unfortunately, the CPS is not a longitudnal data set, so we are not able to directly trace this hypothesized movement.

[4] The new economy is defined as those sectors producing and being affected by the new technologies.

[5] This can be illustrated by the number of workers in the $30,300 to $45,400 bracket, which would have placed an individual in the upper middle-segment of all workers in the early 1970s. The absolute number in this earnings range increased from an initial count of over 1.5 million in the early 1970s to nearly 2.5 million in the late 1990s. In absolute numbers, then, the case for a collapsing middle class is problematic. Despite the growth, the share of all workers in this bracket fell from 25 percent to 19 percent.

[6] The percent of all workers earning no more than about $16,500 grew from 23 percent in the early 1970s to 29 percent in the late 1990s.

[7] OLS (ordinary least squares) regressions are used for the three periods 1974-76, 1984-86, and 1996-98. The specification is based on the widely used human-capital model. The dependent variable is the log of annual earnings, and the list of independent variables includes gender, race, educational attainment, experience, marital status, and year. The regressions are estimated using observations for full-time, full-year workers.

[8] Within this less-educated group, earnings at the 20th percentile dropped from $10,600 to $8,000, and earnings at the 80th percentile declined from $40,000 to $24,000.

[9] Compiled by authors from Employment Development Department, Labor Market Information, www.calmis.ca.gov.

[10] The sample for this analysis includes full-time workers earning $100 or more a week (1999 dollars). Analysis of earnings of workers covered by collective bargaining is based upon data from the CPS ORG files (see note 1 above) and examines weekly earnings. The ORG files do not contain data on annual earnings.

[11] This is accomplished in part by securing higher wages. Results from a multivariate analysis indicate that those covered by collective bargaining earned about 11 percent more after accounting for personal characteristics.

[12] Two sets of OLS regressions are used, and the specification is based on a human-capital model. The dependent variable is the log of annual earnings. The sample is restricted to observations for the full-time, full-year workers. For the first set of regressions, all races are used, and the list of independent variables includes gender, race, educational attainment, experience, marital status, and year. For the second set of regressions, only non-Hispanic Whites are used, and the list of independent variables includes gender, educational attainment, experience, marital status, and year. The "unadjusted" gap is based on a regression with only the gender variable. The percentage gap is calculated as follows: gap=1-exp(a/b), where a = female, or White female, and b = male, or White male.

[13] The estimates are based on OLS regressions similar to the ones used to estimate the returns to education and the impact of gender. As before, the dependent variable is the log of annual earnings for full-time, full-year workers. The independent variables include gender, race, educational attainment, experience, marital status, and year. A second set of regressions includes two additional variables, identifying recent immigrants and more established immigrants. Unfortunately, nativity data are available for only the 1990s. The "unadjusted" gap is based on a regression with only the race variables. The percentage gap is calculated as follows: gap=1-exp(a/b), where a = minority and b = non-Hispanic White. By using only full-time, full-year workers, the results underestimate the racial gap because it does not take into account the higher unemployment and underemployment rates for minorities.

[14] The percentage refers to those children who live at or below 200 percent of poverty. Source: Compiled by U.S. Census Bureau from Current Population Surveys, March 1997, 1998, and 1999. See U.S. Census Bureau, "Low Income Uninsured Children by State: 1996, 1997, and 1998," www.census.gov/hhes/hlthins/liuc98.html.

CHAPTER 3

IMMIGRANT LABOR IN CALIFORNIA[1]

ABEL VALENZUELA JR. AND PAUL M. ONG

Introduction

Throughout California's history, new arrivals have periodically been a central force shaping the state's labor force and economic output. Since the 1960s, immigration has reemerged as a major component in the growth of the state's population, more than doubling its size, making California by far the largest state in the Union. Unfortunately, immigrant assimilation into the economy and society has been problematic. Immigrants are an important source of new labor, yet their incorporation has been uneven and as a result, their economic outcomes disparate. Because the foreign-born population is comprised largely of Latinos and Asians, there have been growing concerns and uneasiness about their social, economic, and cultural impacts on the state, leading to a backlash from established residents. The most visible sign of the conflict was the volatile fight in 1994 over passage of Proposition 187 a statewide initiative designed to prevent undocumented immigrants from receiving publicly supported social services such as education and health. The political pendulum, however, is now swinging back to a more moderate position, with the focus on how this state can best take advantage of its ethnic diversity and facilitate a greater incorporation of its immigrants in the economy and society at large. Sound policies require a better understanding of the foreign-born population, including their role in California's labor market.

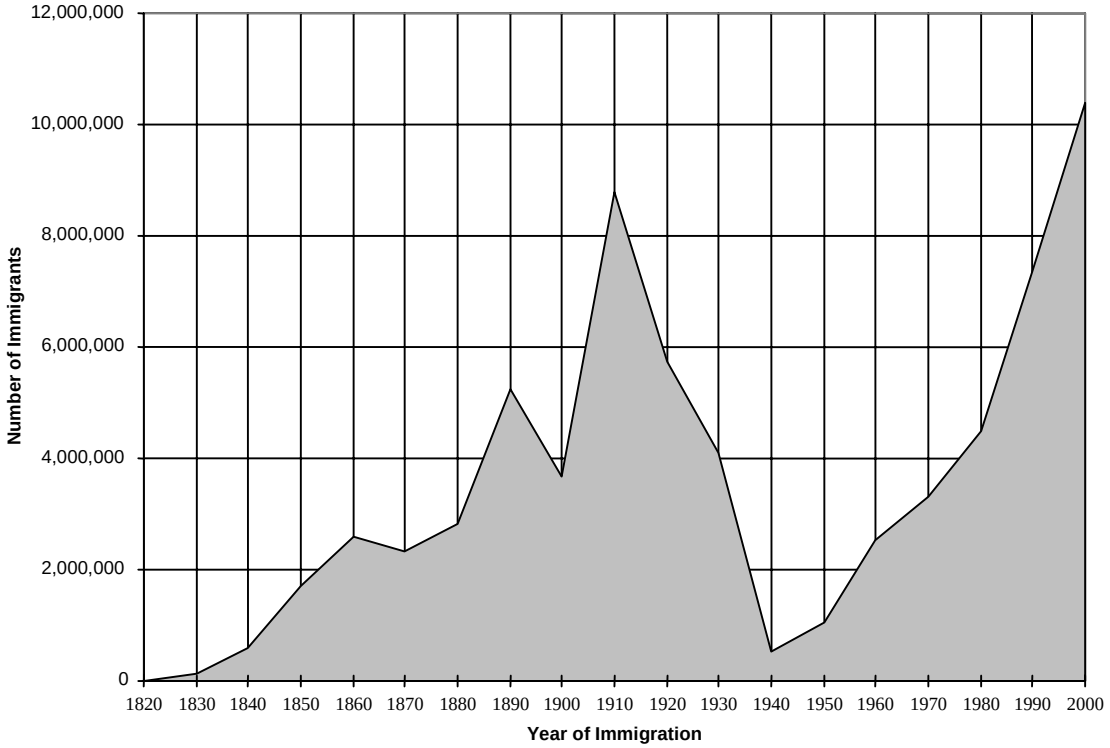
This chapter presents an array of data on immigration.[2] Its primary purpose is to better understand the immigrants who comprise and impact California's labor market. The first half of this chapter focuses on a brief comparison of immigration to the United States and California, paying particular attention to different immigration waves, and the public policies and other factors that determined the size and composition of the flow. We argue that California's immigration history is reflective of national policies related to immigration to the United States. We also argue that the unique relationship between Mexico and the United States and an industrial policy that favors both high-and-low-skill foreign-born workers have also contributed to California's particular immigrant composition and size. The second half of the chapter presents a contemporary portrait of California's immigrant labor force. Particular attention is given to characteristics that affect labor-market outcomes for the foreign-born, their incorporation into the economy, and their impacts on the labor force. The chapter concludes with a discussion of policy issues on immigration, labor, and California's future.

Immigration to the U.S. and California

Immigration to California is embedded in immigration to the United States, which has ebbed and flowed with policy changes, economic cycles, and world crises such as famine, war, and natural disasters. The extreme fluctuations are captured in figure 1, which traces the number of persons admitted for permanent residency. Of course, immigration patterns are more complex because the graph does not include undocumented migration, circular movements, temporary visitors, and guest workers; nonetheless, the graph does illustrate the reality that immigration has come in waves. The earlier waves were dominated by Western and Northern Europeans, and then by Eastern and Southern Europeans. The

exception was a significant presence of Asians and Mexicans in the American West. Large-scale immigration ended with the enactment of the restrictive 1924 Immigration Act and later by the Great Depression.[3] Immigration slowly increased after World War II, driven in part by political and economic refugees. It wasn't until 1965 when we begin to see a marked change in the size and composition of immigrants to the United States.

Figure 1
Immigration to the United States, 1820-2000



The pattern of legal immigration was transformed by the 1965 Immigration Act, which reopened the door to large-scale immigration and abolished the racially biased national origins quota system. The centerpiece of this act is family reunification. American citizens and established permanent residents have priority in sponsoring relatives for entry into the United States. A smaller but increasingly larger share of the quotas is assigned to those who can make an economic contribution, either because they possess unique skills or talents or because they can help create jobs through investments. A final component covers political refugees. For a number of economic and political reasons, persons from Latin America and Asia have filled the majority of the quotas. Table 1 gives information on the recomposition of legal immigration over the last half century. During the 1950s, Mexico and Asia accounted for only 18 percent of the 2.5 million admitted. By the 1980s, Mexicans and Asians accounted for 60 percent of the 7.3 million admitted. The number of European immigrants grew in the 1990s, due in part to an increase in refugees due to the collapse of the Soviet Union and other Eastern countries, and to a "diversity" program aimed at increasing the number of immigrants from under served nations, including European nations.

Table 1: Immigrants by Region of Last Residence United States, Fiscal Years 1961-98

Region	**Years**				
	1951-60	**1961-70**	**1971-80**	**1981-90**	**1991-98**
Europe	53%	34%	18%	10%	15%
Asia	6%	13%	35%	37%	31%
Mexico	12%	14%	14%	23%	25%
Caribbean	5%	14%	16%	12%	11%
Other	24%	25%	16%	18%	18%
Total	2,515,479	3,321,677	4,493,314	7,338,062	7,605,068
	(100%)	(100%)	(100%)	(100%)	(100%)

Compiled from 1998 Statistical Yearbook of the Immigration and Naturalization Services

Undocumented migration is also an important component of the latest wave of large-scale immigration, but this type of immigration is by its very nature very difficult to quantify. The available evidence indicates that it is difficult to control, and that most are from developing countries. The Immigration and Naturalization Service estimates that the undocumented population was growing by about 275,000 each year during the mid-1990s; however, this figure is just the net growth rather than the larger gross flows into and out of the United States. Moreover, both the gross flows and net growth are likely to fluctuate with economic and political conditions both in the United States and in the sending countries. What is known about the size of the undocumented population comes from amnesty programs and rough estimates. The single largest amnesty program was the 1986 Immigration Reform and Control Act (IRCA), which enabled approximately 3.1 million previously undocumented residents to apply for legalization.[4] The overwhelming majority of the applicants were from Mexico, other Latin American countries, and Asia. While IRCA was designed to end the massive flows of undocumented aliens, it failed to do so. The unauthorized population just about disappeared after this landmark legislation only to reappear in the mid-1990s as new flows and labor demands of unauthorized immigrants returned. The INS estimates that there were about five million illegal alien residents in the United States in 1996.[5] Over half (54 percent) were from Mexico, and 16 of the next 19 largest nationality groups came from an Asian, Latin American or Caribbean nation.

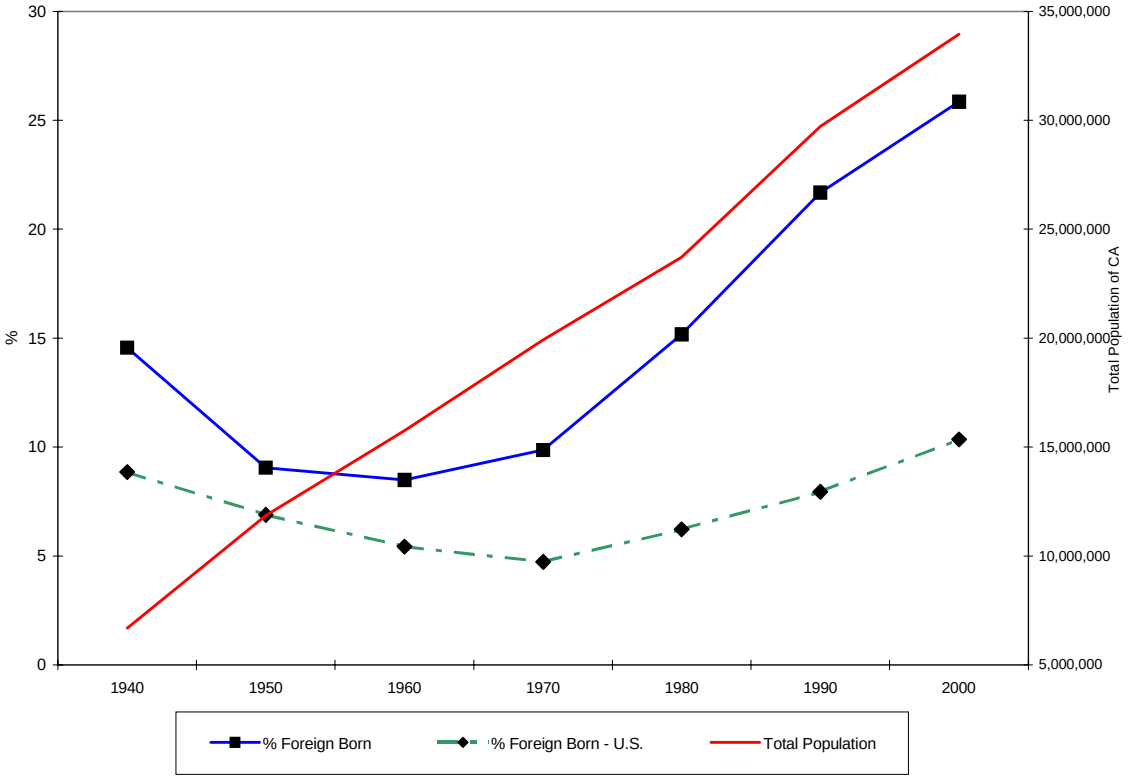
A final component of immigration is comprised of temporary workers. While their use is a part of the current wave of large-scale immigration, the United States has had a long history of utilizing such labor to address shortages. In 1942, the U.S. signed a contractual arrangement with Mexico that allowed for thousands of laborers – *braceros* as they were officially called – to temporarily work in the United States. This need for labor was primarily the result of labor shortages at home while most able-bodied men were fighting the World War in Europe. In all, the *Bracero* Program lasted 22 years and included in its participation over 4.5 million Mexican Nationals. This nation has also used temporary workers to help fill jobs requiring a high level of education, particularly in the health and technology industries. During the 1970s and 1980s, hospitals and other health facilities hired thousands of nurses as temporary workers, mostly from Asia. More recently, the focus has been on high-tech workers. In 1998, Congress passed the American Competitiveness and Workforce Improvement Act that authorized the use of aliens for temporary employment in a specialty occupation through an H-1B visa. This Act was passed as a result of increased pressures by high-tech and other specialty companies who complained that the U.S. workforce was in short supply of specialized skilled workers. The limits have gone up over time, first to 115,00 during the year 2000, and then to 195,000 for years 2001, 2002 and 2003. INS estimates that nearly half of the H-1B petitions were granted to persons born in India, which far exceeded China, the

next leading country. Approximately 53 percent of the approved petitions were for aliens with occupations in systems analysis or programming.

The impact of the most current wave of large-scale immigration can be seen in the growth of the foreign-born population of the United States, which has increased from 9.6 million in 1970 to 14.1 million in 1980, 19.8 million in 1990, and 28.4 million in 1999/2000. As a percentage of the total population, the foreign-born population increased from 4.7 percent in 1970 to 6.2 percent in 1980, 7.9 percent in 1990, and 10.3 percent in 1999/2000. The racial/ethnic composition also changed during this period. In 1970, over two-thirds of all immigrants were non-Hispanic white. By the end of the century, only a quarter of all immigrants was non-Hispanic white.

Recent immigration has affected California more than any other state. The state was home for over three-in-ten permanent immigrants admitted between 1990 and 1998, and for four-in-ten undocumented immigrants in 1996. Moreover, Californian firms are among the leading employers of high-tech workers on temporary work visas.[6] Because of the disproportionate high flows into California, this state has become the premiere destination, surpassing even New York — historically the region of preference for newcomers. This geographically concentrated immigration pattern has rapidly pushed up the share of the population that is foreign-born, which is depicted in figure 2. The growth of the relative size of this population occurred earlier for California than for the United States, and the increase was substantially larger. For the nation, the percentage went from a low of 5.4 percent in 1970 to 10.4 percent in 1999/2000. The comparable numbers for California are 8.5 percent in 1960 to 25.9 in 1999/2000. The immigrant population has been a driving force behind the rapid increase in the state's total population.

Figure 2, Percent Foreign-Born,1940-2000 in California and U.S.



Source: U.S. Decennial Census, Current Population Survey

The characteristics of California's foreign-born population are different than the characteristics for those in the rest of the country. Table 2 presents some basic statistics. Young adults comprise a slightly higher proportion of the state's population. Interestingly, a smaller proportion of California's foreign-born population is comprised of recent immigrants. Whereas only three-tenths of those in this state arrived in the 1990s, four-tenths of those in the rest of the nation did. This suggests that recent immigration flows has become geographically more diverse. While California still is the intended home for a disproportionate number of newcomers, a growing share is settling in other states. The biggest difference is the ethnic/racial composition. Non-Hispanic whites comprise a smaller share of California's foreign-born population, with Asians and Latinos making up the difference.

Table 2: Characteristics of the Foreign-Born Population, 1999/2000

	Total U.S.	**California**	**Rest U.S.**
Decade of Entry			
1990s	37%	31%	40%
1980s	29%	36%	26%
1970s and Earlier	33%	33%	34%
Race/Ethnicity			
Non-Hispanic White	25%	15%	29%
API	24%	30%	21%
Latino	45%	53%	41%
Other	6%	1%	9%
Age			
0-18	11%	10%	11%
19-34	32%	35%	31%
35-55	38%	38%	38%
55+	19%	17%	20%

Source: Compiled by UCLA Lewis Center for Regional Policy Studies from Current Population Survey 1999/2000

California's Immigrant Labor Force

During the past thirty years, California's labor force has changed considerably. Table 3 presents data to describe this change. The number of workers roughly doubled between 1970 and 1997-99. Part of this growth is fueled by a higher labor-force participation rate among women. In 1970, they represented about 40 percent, or slightly over three million of the total work force. By the end of the century, their ranks more than doubled, increasing their share of the total labor force to 44 percent. Even though the absolute number of male workers increased by over four million, their percent of the total labor force dropped by 5 percentage points. All of the major racial groups in California increased in the number of jobs held in 1997-99, with Latinos experiencing the largest, growing by 3.4 million workers, representing a 440 percent increase. Asians increased their total number of jobs by over 1.6 million, representing an even higher growth rate of 740 percent! The foreign-born experienced similar gains. Their share of the labor force jumped from 10 percent in 1970 to 30 percent in 1997-99. In absolute numbers their ranks increased by almost four million, representing a 500 percent growth rate. The native-born also grew, increasing their share of jobs by almost four million. Their rate of growth, however, was not nearly as large coming in at 55 percent. Of all foreign-born workers in California, Asians captured almost one-third (29.2 percent), while Latinos represent well over one-half at 54 percent. Foreign-born whites followed at 15 percent with foreign-born blacks registering a low of 2 percent.

Table 3: California's Labor Force, 1970 & 1997-99

	1970		1997-99		Change	
	Total	**Percent**	**Total**	**Percent**	**Total**	**Percent**
Total	7,884,900	100%	15,806,862	100%	7,921,962	
Male	4,808,100	61%	8,868,453	56%	4,060,353	-5%
Female	3,076,800	39%	6,938,409	44%	3,861,609	5%
White	6,344,100	80%	8,643,480	55%	2,299,380	-25%
Latino	774,500	10%	4,193,670	27%	3,419,170	17%
Asian	224,600	3%	1,885,899	12%	1,661,299	9%
African American	501,000	6%	980,787	6%	479,787	
Other	40,700	1%	103,026	1%	62,326	
Foreign-born	798,100	10%	4,796,584	30%	3,998,484	2%
Native-born	7,086,800	90%	11,010,278	70%	3,923,478	2%

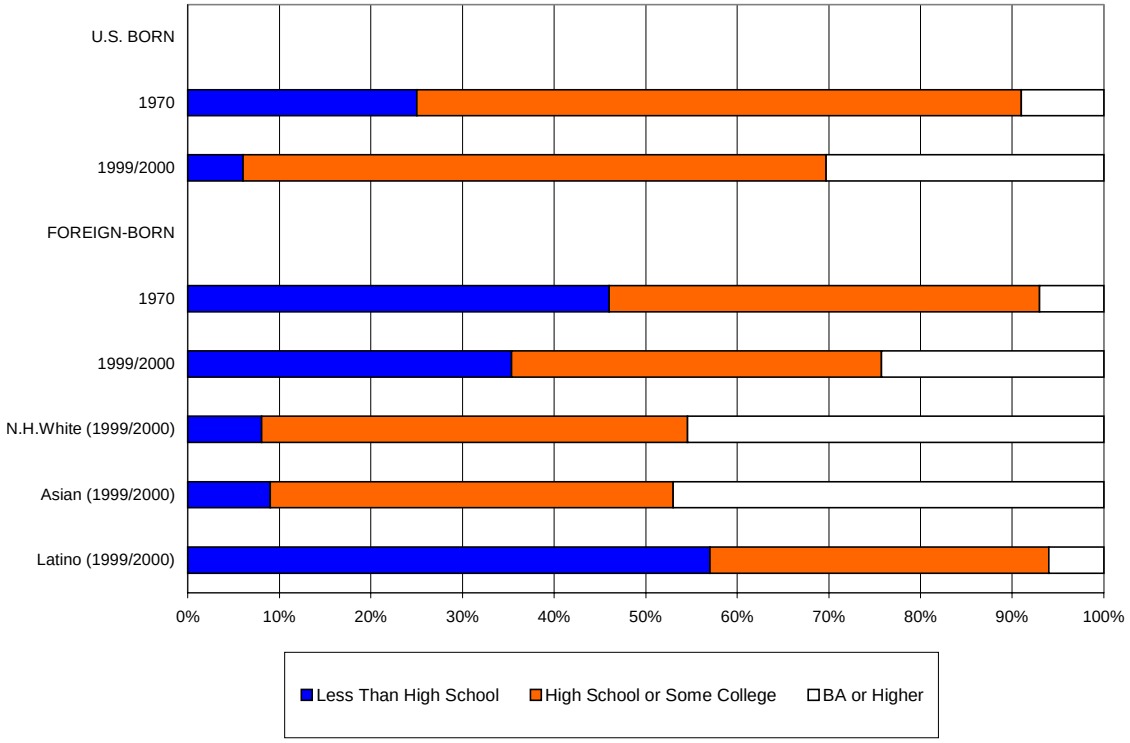
Source: PUMS, 1 percent file and pooled sample of the March Current Population Survey averaged over a three-year period during 1997, 1998 & 1999.

Much of the growth in the foreign-born workforce between 1970 and 1997-99 occurred when several key policies fueled immigration to California. For example, the 1965 Immigration Act dramatically increased the quotas for non-European countries, which then opened the door to new streams of immigration. A part of the increase, however, may be a statistical artifact. For example, IRCA, which provided amnesty to over three million previously unauthorized, was passed in 1986. Their legalization may very well have encouraged their participation in mainstream labor markets captured by the U.S. Bureau of the Census and reflected in the data presented for this chapter. Additional changes in immigration and related policies have also influenced immigration to California and affect the laborforce data. The Immigration Act of 1990 increased the total number of immigrants allowed to enter, thus increasing the number of foreign-born workers. The 1996 Personal Responsibility and Work Opportunity Reconciliation Act, which ushered in welfare reform, also increased the supply of workers by limiting benefits and promoting transition to work. The H-1B visa program also pushed up the number of foreign workers by providing immigrants with temporary employment in specialty occupations such as the Silicon Valley's high technology industry.

Many foreign-born workers face limited opportunities because of limited marketable skills. Education is a strong predictor of how people get sorted into different jobs. Education is also important to understanding differences in employment rates, mobility, and wage inequality. Figure 3 tracks the educational attainment of California's work force by nativity from 1970 to 1997-99. There is clearly improvement between 1970 and 1997-99 for both groups, particularly the native-born who on average increased their percentage with a bachelor's degree by 22 percentage points. Similarly, each group of the foreign-born experienced substantial educational upgrading between 1970 and 1997-99, as the proportion of workers with less than a high school diploma was cut, on average, by 19 percentage points. Despite substantial improvement, however, years of completed schooling among the foreign-born continued to trail that of the native-born. For example, whereas 6 percent of the native-born workers had less than a high school degree in 1997-99, 37 percent of the foreign-born workers fell into this category.

The foreign-born labor force, however, is a very heterogeneous population by race, and this can be clearly seen in educational attainment. Over four-tenths of Asian and white foreign-born workers have at least a college education, while less than a tenth of Latino foreign-born workers do. At the other extreme, a majority of Latino foreign-born workers have less than a high school education, while only a tenth of all other foreign-born workers do. This variation contributes to disparities in occupational status and earnings, which are discussed below.

Figure 3: Educational Attainment by Nativity in California



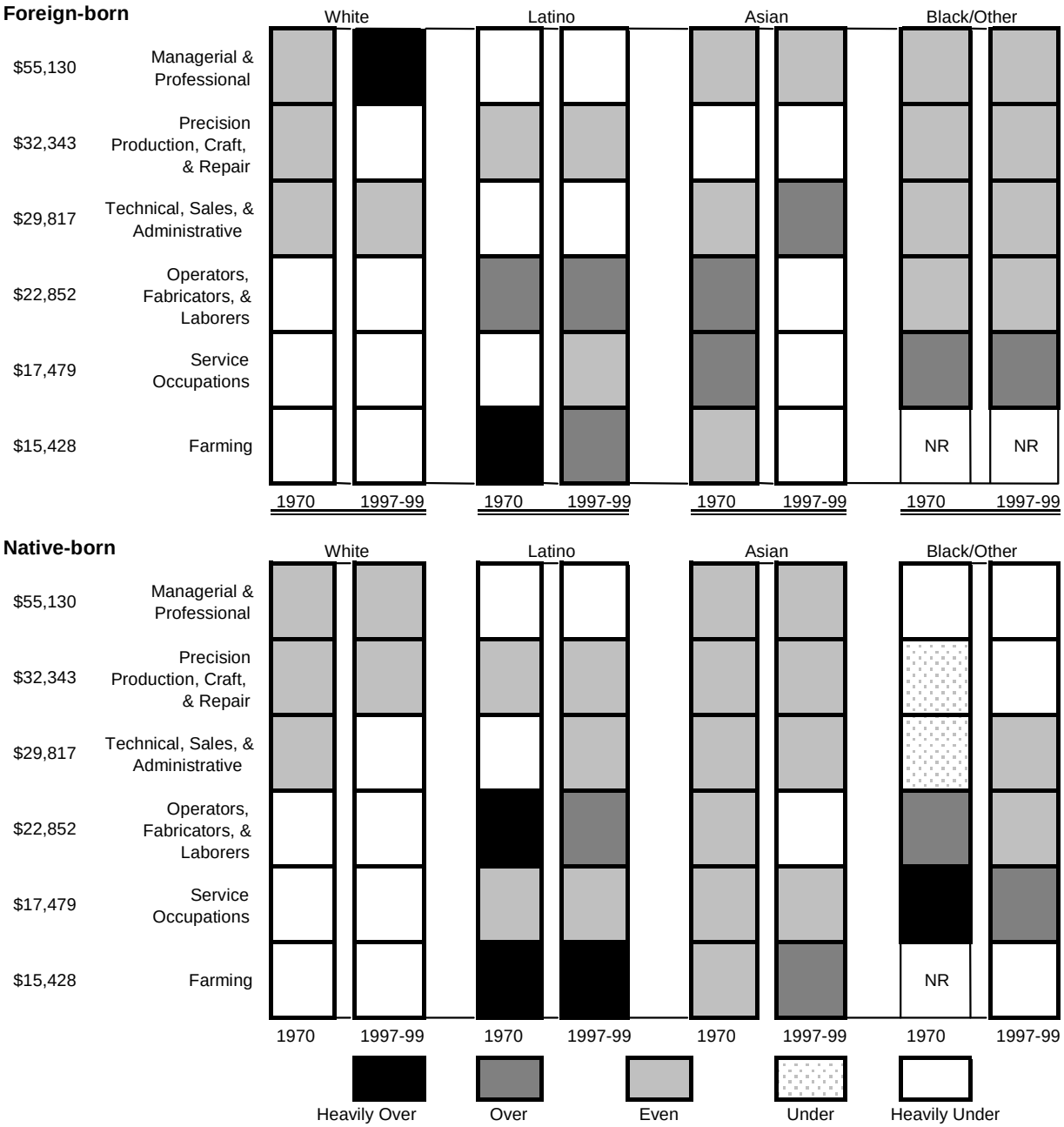
Occupational Structure and Earnings

Because of differences in educational attainment, along with other factors such as English language proficiency, immigrant workers are not uniformly distributed throughout the California economy. This can be seen in distribution by occupation, as depicted in figure 4.[7] The underlying index is ratio of a group's percent of the total labor force to the group's percent of the workers in a given occupation. "Heavily over-under" denotes over-or underrepresentation by a factor of 2 or greater, "over-under" denotes over-or underrepresentation by a factor of 1.5 to 1.9, and "even" designates a group being neither over-or underrepresented in an occupation by a factor of 1.4 or less.

The distribution of immigrants has led to substantial differences over time in some occupational sectors but not for others. In 1970 foreign-born Latino and Asian workers were largely absent from the top-paying occupations. For Latinos, this held true for managerial and professional jobs, while for Asians, this held true in precision production, craft, and repair jobs. Foreign-born whites on the other hand, were evenly represented in these two occupations. At the lower end, Latinos and Asians were heavily over-represented in occupations that pay the lowest. The concentration of immigrants in low-paying occupations and omission from the better-paying occupational sectors in 1970 are major reasons for the native-to-foreign-born gap in earnings (to be discussed). Almost thirty years later the occupational distribution of immigrants had changed considerably for the better, but not for all groups. Whites increased in their representation in higher paid occupations, while Asians, and to a lesser extent Latinos, became more concentrated in lower paying jobs. In summary, some positive changes have occurred over time, but they have not been shared equally among the foreign-born groups. In other words, the occupational structure in California remains heavily stratified. In 1997-99, whites and Asians were the groups best represented among the top-paying occupational categories. Latinos, however, are moored

Figure 4

Foreign & Native Born: Representation in Major Occupations in California, 1970 and 1997-99



Source: PUMS, 1% file and pooled sample of the March Current Population Survey averaged over a three year period during 1997, 1998, and 1999.

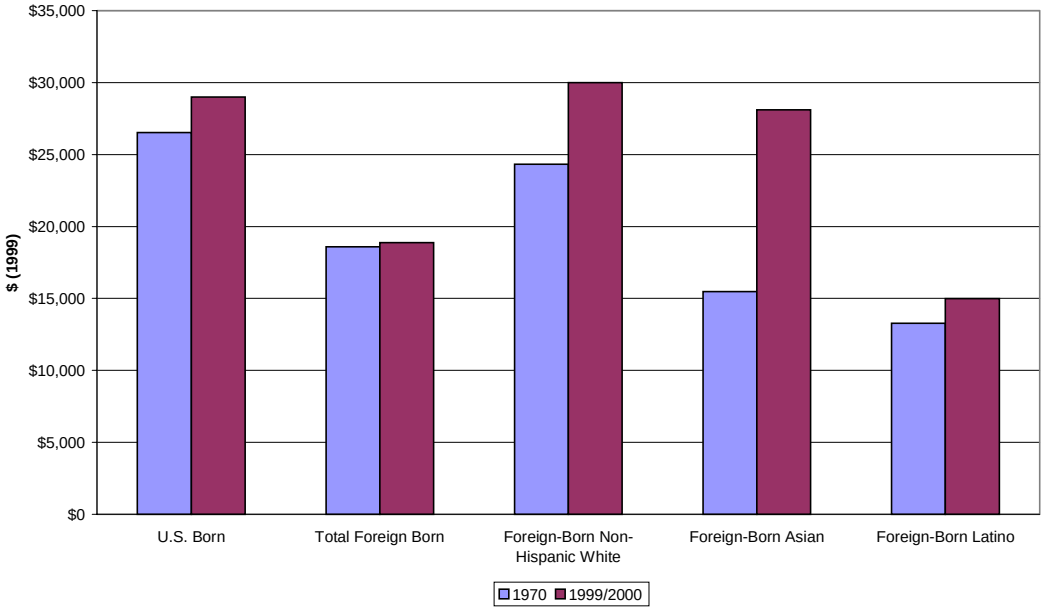
NR: No Representation

toward the bottom of the occupational hierarchy and exhibited little advancement between 1970 and 1997-99. Clearly, race and ethnicity remain powerful forces in the sorting process of people into jobs.

The same hierarchy can be seen in figure 5, which provides data on median earnings by race and nativity. It shows that the typical U.S.-born worker earned considerably more than the typical immigrant worker in both 1969 and 1998/99. Moreover, the gap grew over time as earnings for U.S.-born workers improved while earnings for their counterparts remained essentially stagnant. Among the major

immigrant groups, there is considerable ethnic variation. There is a distinct hierarchy with whites on top, Asians in the middle and Latinos at the bottom. Moreover, median earnings for whites and Asians increased significantly, but median earnings for Latinos experienced a marked decline. By the end of the

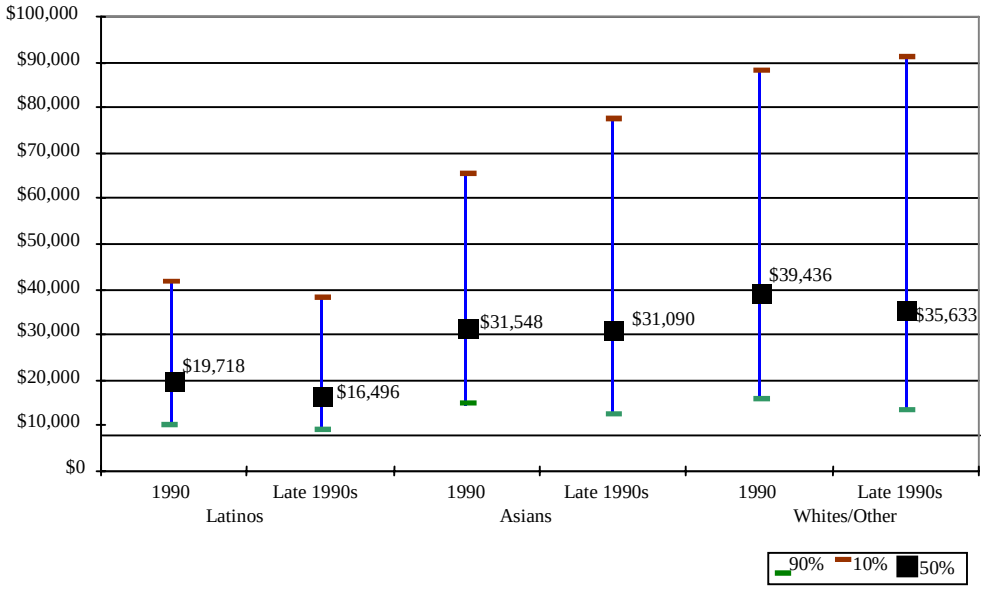
Figure 5: Median Earnings by Nativity, California 1969-1998/1999



century, foreign-born Latinos had by a substantial margin the lowest average earnings among all immigrant and U.S.-born ethnic groups.

Looking at median earnings, however, obscures within group variations in earnings among the foreign born. Figure 6 shows the range in full-time, full-year earnings for 1990 and 1997-99 for immigrant Latinos, Asians, and whites/others. Latinos not only have the lowest average earnings, but

Figure 6: Distribution of Earnings of Foreign-Born, Full-Time, Full-Year Workers in the U.S.



they also have the most compressed range, and both measures have deteriorated over time. This may be due to their lower educational attainment, which concentrates them in poorly paid occupations. Clearly, immigrant Latinos are doing substantially worse off than other foreign-born workers. Even though Asians and other foreign-born experienced a decline in their median earnings between 1990 and 1997-99, the difference between them and Latinos is substantial. In addition, their earnings distribution is spread out further, reaching a high of $78,000 and $92,000 for Asians and whites/others, respectively, in 1997-99.

There is another important systematic variation in earnings differences due to the time in the United States. As immigrants pick up new skills, improve their English, and gain greater knowledge of where to find better jobs, they improve their earnings. This process is known as economic assimilation, and the rate and magnitude of this process are important to our understanding of the dynamics of how the foreign-born are incorporated into the economy. Separating the influence of this form of assimilation from other causal factors (such as education, years of labor market experience, and race and gender) requires using multivariate regressions.[8] The major finding from such an analysis indicates that it takes about 16 or more years for an immigrant to close the earnings gap, when compared to a U.S.-born worker with the same number of years of schooling and work experience, and of the same gender and race. In some ways, this is good news because the empirical results indicate that the economy and society offers immigrants ways to make progress over time. However, this good news is tempered by other findings. For example, the rate of economic assimilation has slowed since the late 1980s, thus requiring more time for immigrants to make the same progress. Moreover, economic returns to education have increased; that is, the difference in earnings has increased between those with different years of schooling. This means that immigrants will continue to earn less even after economic assimilation because they have substantially less education. Finally, racial differences continue to be a problem, with Latinos and African Americans earning about a tenth less after accounting for other factors. The implication is that many immigrants, particularly Latinos, face a racial barrier on how far they can move up the economic ladder.

Conclusion

Three main points emerge from the available data. First, public policies have historically played a powerful role in determining the volume and composition of immigration to the United States and California. Other unique determinants, such as a shared border with Mexico and particular labor demands during the past 150 years have also contributed to California's diverse, large, and growing immigrant labor force. Second, large inflows of immigrants have played a major role in driving California's growth and in shaping its industrial and occupational landscape. Third, though immigrants participate in and contribute to California's economy, a disproportionate number are concentrated at the lower end of the labor market. Lower rates of human capital partially explain the over-representation of Latinos and to a lesser extent, Asians in poorly paid occupations. Other indicators similarly point to uneven labor force outcomes such as low median income and uneven distribution of earnings for Latino and Asian immigrants when compared to other groups. Similarly, while immigrants are making progress over time, the rate of economic assimilation has slowed down and many immigrants, particularly Latinos, face racial barriers in their slow progress up the economic ladder.

Key to California's future is the smooth transition and further incorporation of immigrants into better paying occupations and increasing the rates of pay in traditionally bad paying jobs. The latter option requires targeted industrial and economic development policies, increased minimum wage standards, and regulations to protect the workers' rights. They must be complemented with policies that aim at the marketability of the working poor, and thus their potential to secure better paying jobs. This requires greater support for educational and training programs and other innovative efforts that enhance worker skills. Differential occupational and earnings outcomes will continue unabated without strategic policy intervention to deal with inequality between foreign and native-born workers.

Endnotes:

[1] We are indebted to Michela Zonta and Paula Harmer Kim for their assistance in assembling the statistics for this report.

[2] The statistics for this chapter comes from several published and unpublished sources. The original analyses are based on the 1970, 1980 and 1990 Public Use Microdata Samples from the U.S. Bureau of the Census, and from the March Current Population Surveys for 1998, 1999, and 2000. All data presented are weighted and in summary format for the entire state of California. Earnings statistics are reported in constant dollars. Additional data come from statistics reported by the U.S. Immigration and Naturalization Service.

[3] Congress first attempted to control immigration in 1864 with the appointment of a Commissioner of Immigration by the President to serve under the authority of the Secretary of Sate. For the first time, policies prohibiting entry to undesirable immigrants were passed in 1875. In 1882, the United States suspended immigration of Chinese laborers to the United States for ten years enacting the Chinese Exclusion Act which was the first to deny admissions to this country based on race. About ten years later, Congress further restricted immigration by adding to the inadmissible persons likely to become public charges, persons suffering from certain contagious disease, felons, persons convicted of other crimes or misdemeanors, and polygamists. In 1917 to further add injury to insult, Congress further restricted the immigration of Asian persons, creating the "barred zone" known as the Asia-Pacific triangle. The 1924 Immigration Act went further by limiting immigration from Eastern and Southern Europe.

[4] The law simultaneously authorized the legalization of aliens who had resided in the United States in an unlawful status since January 1, 1982, and created sanctions prohibiting employers from knowingly hiring, recruiting, or referring for a fee undocumented immigrants not authorized to work in the United States. Previously undocumented residents could apply for either the regular or SAWs (Special Agricultural Workers) legalization programs. After first receiving temporary resident status, they would after one year shift to permanent status. After five years, all permanent resident aliens in the United States qualify for naturalization. In essence, the undocumented population became authorized after meeting certain qualifications including proof that they had resided continuously in the United States prior to 1982.

[5] Two types of unauthorized immigrants exist. The most typical way of joining the illegal population is to obtain visas for temporary visits and stay beyond the authorized period of admission. This segment of the population constitutes roughly half of the illegal immigrant population residing in the United States. The second half consists of those who enter the country surreptitiously across land boarders, these are referred to as EWIs (Entry Without Inspection). EWIs include persons from nearly every country, but a large majority is from Mexico; most of the rest are from Central American countries (U.S. Immigration and Naturalization Service, 1996).

[6] All computer-related and engineering occupations accounted for 70 percent of the total H-1B petition. Three of the top five firms hiring H-1B workers are in California (Oracle, Cisco Systems, and Intel). (U.S., INS, "Leading Employers of Specialty Occupation Workers (H-1B): October 1999 to February 2000," June 2000)

[7] For a discussion on the use and meaning of this index, see Lieberson 1980; Waldinger 1996; and Grant 2000. The index of representation (IR) is 1.0 when a group is represented in an occupational and the labor force at the same rate, above 1.0 when it is over-represented, and below 1.0 when underrepresented in a given occupational category. For example, in 1970, 10 percent of all workers were immigrants; 10 percent of immigrants were employed as farmers, 26 percent as operators, fabricators, and laborers, and 6 percent as managerial/professional workers. Thus, immigrant workers were evenly represented as farmers (IR=1), over-represented as operators, fabricators, and laborers by a factor of 2.6 (IR=2.6), and underrepresented among managerial/professional workers by a factor of .6 (IR-.6). For the figure, occupations are ranked by average earnings.

[8] OLS regressions are used, and the specification is based on a human-capital model. The dependent variable is the log of annual earnings. The independent variables include race, gender, educational attainment, potential years of work experience, and years in the U.S. The rate of economic assimilation is based on the estimated coefficients for the years-in-the-U.S. variables. Small coefficients are interpreted as the percent difference in earnings between a given immigrant cohort and U.S.-born workers. The percent difference for large coefficients is calculated using (1-exp(b)). Additional regressions were estimated separately for females and males.

CHAPTER 4

INFORMAL EMPLOYMENT IN CALIFORNIA

ENRICO A. MARCELLI

The purpose of this chapter is two-fold. After first estimating the number of persons employed informally from 1990 to 1999 in California by occupation, I next investigate (1) whether informal employment (IE) is simply an economic survival strategy; (2) whether those employed informally hold multiple jobs and pay income taxes; (3) the gender, ethno-racial, and immigrant composition of IE; (4) the geographic distribution of IE; and (5) whether those employed informally use public assistance programs. IE is here defined as "the paid production and sale of goods and services that are unregistered by, or hidden from, the state" in an effort to avoid complying with environmental, health, safety, labor, and tax regulations (Williams and Windebank 1998). The purpose is not to estimate the total amount of IE in the state, but to investigate how lower- to middle-income workers are coping economically in a context where work and welfare have been radically restructured by design (Champlin and Knoedler 1999).

After reviewing some literature and the analytical approach that will guide our analysis in the next section, I explain why the estimated proportion of unauthorized Mexican immigrants by occupation is used to tag specific occupations (and all persons employed in them) as informal. A fourth section reports our findings, section five discusses some policy implications, and we conclude by summarizing the study's major findings.

The study's results indicate that the number of those employed informally is estimated to have fallen from the early to mid-1990s, and to have risen slightly thereafter. Overall, the level of estimated IE dropped from 2.7 to 2.3 million workers, representing 17 and 14 percent of California's total labor force respectively. Thus, contradicting the prediction of rising informality, more commonly known as the "informality thesis," a smaller fraction of California's workforce appears to be working informally than was the case in the early 1990s. Analysis of data covering the previous decade reveals that informal workers in California were more likely (1) to have worked for a private enterprise in the Agriculture/Mining or Personal Service sectors, (2) to have resided in southern California or the Bay area, (3) to have been younger, less-educated, ethno-racial minorities, and foreign-born, and (4) to have been impoverished, used welfare, and earned lower hourly wages compared with those working formally. Fully 94 percent of those employed informally, however, filed tax returns.

Rejecting both traditional conservative and liberal approaches, it is here argued that what is needed to ameliorate the negative effects of IE is a combination of top-down (e.g., developing public

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works projects and increasing the minimum wage) and bottom-up (creating time dollar bank accounts and inclusive collaborative regional economic planning) strategies.

II. Analytical Approach

Most past research has employed either a macro-quantitative technique to estimate the volume and value of IE or a micro-ethnographic technique to detail the character of IE (Williams and Windebank 1998; Schneider and Enste 2000). Consequently, the study of IE may be usefully separated into two broad categories. First, more *indirect* approaches employ aggregate non-monetary (e.g., industry or firm), monetary (e.g., cash-deposit ratio or high denomination note), or income/expenditure data (Denison 1982; Fernandez-Kelly and Garcia 1989; Fiege 1990; Gutmann 1977, 1978; Henry 1976; Mattera 1985; Sassen and Smith 1992; U.S. GAO 1989). More *direct* approaches, on the other hand, typically use participant observation or other ethnographic methods to investigate the nature of IE (Hondagneu-Sotelo 1994; Lopez-Garza 2000). An alternative approach, dodging some of the disadvantages and incorporating some of the benefits of the direct and indirect methods, combines data gathered from a regional randomized household survey and U.S. census data to estimate both the level and character of IE in Los Angeles County (Pastor et al. 2000; Marcelli, Pastor and Joassart 1999).

Gutmann (1997, 1978) first brought IE in the United States to the public's attention, and reported that at least 10 percent of officially calculated national income, or approximately $1,500 for a family of four in 1976, was produced informally. This study was subsequently criticized for basing estimated IE on the cash-deposit ratio because according to an IRS study, up to one-third of all IE may be paid for with checks, not cash (Fiege 1990). A related problem with macro-quantitative estimates concerns estimated trends in IE. For instance, Henry (1976) uses the proportion of large denomination currency notes (an indirect monetary estimation methodology) and finds that IE rose from 1960 to 1970. Alternatively, Paglin (1994) assumes that household consumption amounts above reported income (an indirect income/expenditure approach) is a good proxy for IE and reports that IE declined, albeit for a different time period than Henry (1976). Even when the same indirect methodology is employed with the same data, divergent results have been obtained. Denison (1982), using an indirect non-monetary "residual" methodology (e.g., assuming workers would report their employment in the Census Bureau's Current Population Survey but not show up in the Bureau of Labor Statistics' survey of firms) reports that there has been no change in the level of IE in the United States during the post-World War II period. But a U.S. Congress Joint Economic Committee (1983) study employing the same data and methodology provides evidence to the contrary. Consequently, "the vast majority of commentators on informal employment resoundingly reject [the product of macro-quantitative methods] as an accurate measure of the extent and character of informal employment" (Williams and Windebank 1998).

Unfortunately, most researchers continue to employ analytical frameworks that focus attention on estimating the size rather than the character, sources and consequences of IE. In other words, questions concerning why people work informally, the returns to such employment, and the effect IE has on those persons and businesses engaged in formal economic activity are seldom asked. This is not surprising. Absent individual-level estimates of those working informally, it is difficult to gage how IE impacts them, other workers, or the establishments for which they work. Alternatively, a more direct survey-based estimation methodology that secures individual-level data enables one to examine IE across a wide range of industries and occupations and to analyze conditions of IE, including whether participants are paying taxes and using welfare. A variant of this methodology is explained and employed below.

III. Data and Methodology

I first generate legal status prediction information for non-citizen, foreign-born Mexican adults using data gathered from a November-December 1994 Los Angeles County household survey of foreign-born Mexicans (Marcelli and Heer 1997, 1998). This survey was conducted jointly by researchers from El Colegio de la Frontera (COLEF) and the University of Southern California (USC), and is a probability sample of those census tracts in Los Angeles County in which (according to the 1990 Census) 25 percent or more of the total population was born in Mexico. Adults from 271 households in which at least one

person was born in Mexico were asked a series of demographic, migration, and legal status questions, from which information about 661 foreign-born Mexican adults was obtained.[1] Assigned legal status (LS) is then logistically regressed on four demographic variables (e.g., age, sex, educational attainment, and years residing in the United States since first entry) to generate predictors of legal status, which can be applied to foreign-born Mexican adult populations enumerated in larger samples such as the 5 percent 1990 Public Use Microdata Samples or various March Current Population Surveys.[2]

Readers interested in the predictive accuracy of this methodology should note the following. First, the prediction equation assigns legal status in our randomized 1994 COLEF-USC household sample approximately 85 percent of the time. Thus, some non-citizen foreign-born Mexican adults will be incorrectly classified. Second, the methodology assumes that the predictive coefficients obtained from one year (e.g., 1994) and one geographical location (e.g., Los Angeles County) may be usefully applied to other years and other regions in California. This assumption is problematic only to the extent that factors explaining legal status among foreign-born Mexicans (1) change over time or (2) vary from region to region. Finally, recent work that has applied the coefficients generated from the 1994 COLEF-USC survey to all non-citizen, non-Cuban Latinos has generated an estimated number for all unauthorized Latino (Mexican plus all other non-Cuban Latino) immigrants (ULI) that is less than one percent lower than that interpolated from aggregate-level estimates generated by the Immigration and Naturalization Service (INS) using a completely different methodology. Specifically, Marcelli (1999) estimated that there were 146,838 ULI in Los Angeles County in 1990, and the number interpolated from Warren's (1994) *composite* (*components-of-change* and *residual* methods combined) estimate was 147,350. Thus, assuming it unlikely that both figures are inaccurate, we may have some confidence that the estimated number and characteristics of ULI generated by this survey-based estimation methodology are reasonable. And despite the limitations noted above, it appears that our legal status prediction equation generates believable estimates not only of UMI but also of ULI, two groups that constitute a large share of all unauthorized immigrants residing in California.

The main advantage of a survey-based estimation methodology over the more common *residual* and/or *components-of-change* estimation methodologies (Warren 1994, 1997) is that the former offers individual-level information about unauthorized immigrants. The latter provide general source country, age, year of entry and other demographic characteristic, breakdowns of estimated unauthorized immigrants, but no individual level information, by subtracting the number of foreign-born persons who were reported as having obtained permanent legal status in administrative records from the number of non-citizen, foreign-born persons enumerated in the PUMS and CPS. However, unlike the disparities between estimates of informal employment generated by macro-quantitative and micro-ethnographic methodologies highlighted in the previous section, survey-based and residual methodologies estimating the number of unauthorized immigrants produce very similar results.

The procedure used here to tag each adult California worker as engaged in either informal or formal employment builds on previous work by Marcelli, Pastor and Joassart (1999) and Pastor, Dreier, Grigsby III, and Lopez-Garza (2000). First, after a probability of being UMI is generated for each individual foreign-born Mexican adult enumerated in the 1990 PUMS, the combined 1994-96 March CPS, or the combined 1997-99 March CPS are summed to obtain estimated total numbers of UMI for each of the three time periods. Second, foreign-born Mexican adults are ranked by the probability of being UMI in descending order, and a number equivalent to the summed probabilities, moving from top to bottom, is assigned UMI legal status. This method is applied to males and females separately. Third, the proportion of UMI for each of 41 occupational categories created from the 501 developed for the 1990 Census of Population and Housing are compared to the proportion of UMI estimated to be part of the entire California labor force. Similar to others (Joassart 1999; Model 1993; Lopez, Popkin and Telles 1996; Waldinger 1996), I use a conceptual tool called the "index of representation" to identify occupations more and less likely to be informal. An index is computed for each occupational category simply by dividing the proportion of estimated UMI in that category by the estimated proportion of UMI for the entire Californian labor force. An occupation is considered to be (1) informal if the index is greater than two, (2) potentially informal if the index is at least one but less than two, or (3) formal if the

index is less than one. Thus, only those occupations with at least twice the proportion of UMI than average are considered to be niches of informal employment. Finally, the occupational level of IE for 1990, 1994-96, or 1997-99 is equal to the sum of all workers (e.g., not only the estimated number of UMI) within each occupation tagged as informal, and the total number of adults engaged in IE is equivalent to the sum of all workers employed in the informal occupations. The reasonable assumption here is that UMI are more likely to be engaged in occupations where environmental, health, labor, safety and perhaps tax regulations are not being observed, as are others working in these occupations.

Results

Using the techniques described above, we find that approximately 3 percent of the California labor force was UMI throughout the 1990s.[3] Specifically, in 1990 there were an estimated 429,000 UMI, in 1994-96 there were 457,000, and in 1997-99 there were 488,000 (Marcelli 2001).

Comparing the proportions of estimated UMI who worked in 41 different occupational categories reveals that in 1990 nine occupations had at least twice the estimated proportion of UMI workers in the state's overall labor force (Table 1). In 1994-96 as well as in 1997-99 there were seven. While the number of persons working informally fell from 2.65 to 2.09 million from 1990 to 1994-96, or by 21 percent, it rose to 2.31 million, or by 10 percent, between 1994-96 and 1997-99. Thus, although the number of those working informally in California has fallen during the 1990s by 13 percent, as recently as 1997-99 they represented 14 percent of the labor force and 15 percent of all employed persons.

While one may be tempted into thinking that these results lend some support to the informalization thesis, given that California's economy entered a period of recession in the early 1990s and one of expansion in the mid-1990s, they do not. Although the level of IE followed the business cycle, as the economy expanded during the past decade the overall level of IE fell.

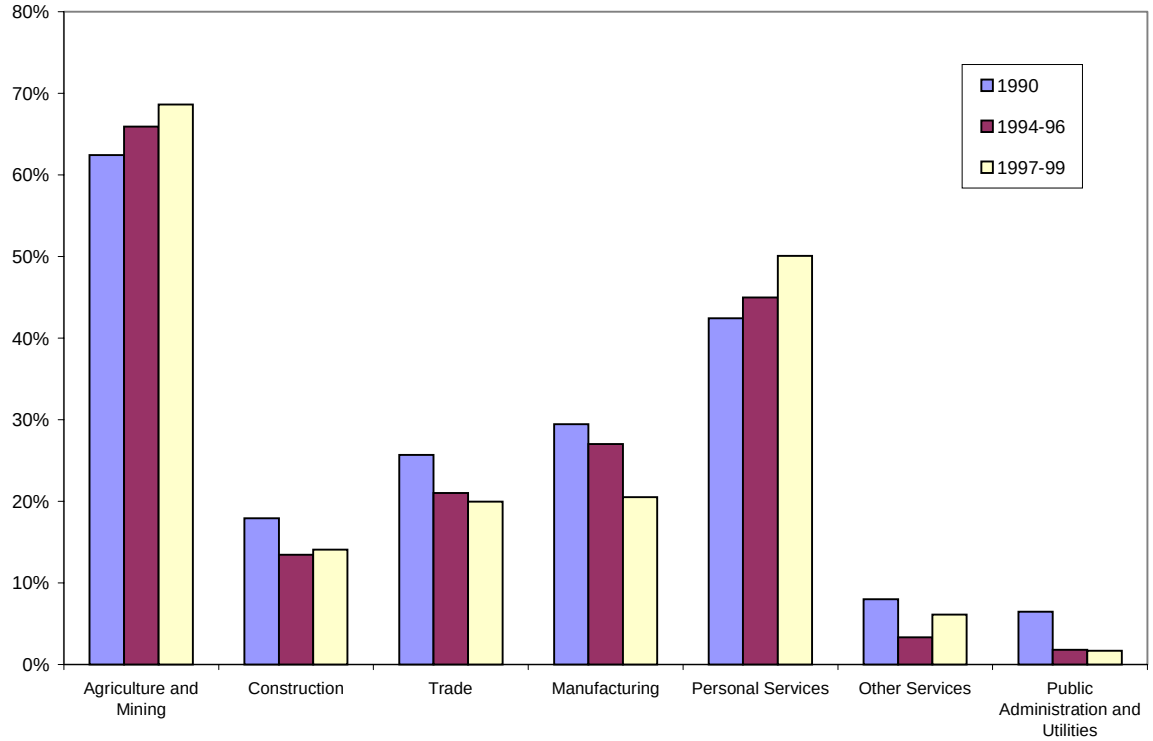
Throughout the 1990s informal workers (IW) were more likely than formal workers to have been working for a private business establishment rather than for government or for themselves (table 2), and to be employed in industries suspected by scholars and policymakers to be relatively informal (figure 1). IW constitute approximately two-thirds of Agriculture and Mining employment and half of all persons employed in Personal Services. Furthermore, the proportion of an industry's workforce that is informally employed rose in these and fell in all others, which had much lower proportions. It appears then that IW in California do not conform to the image of the successful entrepreneur. Rather, they are more likely to be working for others in industries that have historically been more successful at avoiding costly state regulations, and this characteristic appears to have intensified over the 1990s.

Table 1: Estimated Number of Informal Workers

	1990		1994-96 Average		1997-99 Average	
Occupational Category	**Workers**	**% UMI**	**Workers**	**% UMI**	**Workers**	**% UMI**
1. Farm, Forestry, & Fishing workers & related	322,725	18.6%	375,776	17.6%	408,340	19 %
2. Private household workers	95,111	11.4%	183,164	13.3%	164,295	8 %
3. Machine operators & tenders, except precision	487,573	11.0%	497,124	13.2%	545,524	13 %
4. Other handlers, equipment cleaners, helpers, & laborers	15,115	10.7%	14,924	18.0%	--	0 %
5. Construction laborers	147,253	10.6%	78,915	12.8%	132,208	17 %
6. Food service	584,079	8.9%	664,852	11.8%	698,548	10 %
7. Cleaning & building	337,644	8.6%	--	--	319,222	6 %
8. Fabricators, assemblers, inspectors, & samplers	303,905	7.7%	276,572	8.0%	--	--
9. Freight, stock, & material handlers	357,139	7.0%	--	--	--	--
10. Computer equipment operators	--	--	--	--	38,751	6 %
Total Persons Employed Informally	**2,650,544**		**2,091,327**		**2,306,888**	
Percent of All Employed Persons	**18.6%**		**14.9%**		**15.2%**	
Percent of Labor Force	**17.4%**		**13.6%**		**14.2%**	

Table 2: Descriptive Characteristics	1990		1994-96		1997-99	
VARIABLE	**Formal**	**Informal**	**Formal**	**Informal**	**Formal**	**Informal**
GEOGRAPHIC DISTRIBUTION						
Los Angeles, Core	29%	33%	27%	31%	27%	33%
Los Angeles, Fringe	20%	20%	21%	21%	19%	17%
San Diego	9%	7%	8%	7%	9%	8%
San Francisco Bay Area	25%	19%	25%	18%	27%	19%
Central Valley	6%	9%	7%	10%	7%	11%
Balance of State	11%	12%	12%	13%	11%	12%
AGE						
16-30	32%	46%	25%	43%	27%	38%
31-40	29%	25%	30%	28%	28%	28%
41 or Older	39%	29%	45%	29%	46%	35%
EDUCATION						
Less than High School Degree	10%	48%	7%	47%	7%	50%
High School Graduate	19%	25%	21%	28%	20%	28%
Some College or More	71%	27%	72%	25%	73%	22%
ETHNO-RACIAL GROUP						
African-American	7%	5%	6%	2%	7%	3%
Asian	9%	9%	11%	8%	13%	10%
Latino	14%	48%	17%	58%	17%	59%
White	69%	37%	66%	31%	63%	27%
Other	1%	1%	1%	1%	1%	1%
NATIVITY						
Foreign-born	19%	49%	21%	58%	22%	61%
POVERTY						
Poor	9%	27%	9%	36%	9%	37%
PUBLIC ASSISTANCE						
Received AFDC/TANF	1.0%	2.1%	0.7%	1.9%	0.9%	1.7%
EMPLOYMENT						
Part-Time	21%	28%	22%	33%	25%	32%
Multiple Jobs	--	--	17%	12%	17%	11%
Private Establishment	69%	87%	66%	90%	68%	91%
Government	20%	7%	18%	4%	17%	5%
Self-Employed	12%	6%	17%	6%	14%	4%
HOURLY EARNINGS						
Mean	$15.76	$9.39	$17.73	$9.24	$18.81	$9.84
Median	$12.02	$7.08	$14.91	$7.41	$14.44	$7.11
TAX FILING STATUS						
Filed a Tax Return	--	--	1.9%	6.4%	2.6%	6.4%

Figure 1: Industrial Representation & Distribution, 1990-1999



Reflecting the precarious nature of much IE, our analysis also reveals that a slightly higher share of formal workers held multiple jobs, and a lower proportion worked part-time (table 2).

Geographically, IW were over-represented in three regions during the 1990s. The five-county Los Angeles region was home to fully 53 percent of all IW in 1990, with 33 percent residing in Los Angeles County alone. Another 19 percent lived in the San Francisco Bay area, with the remaining 28 percent dispersed throughout the Central Valley region (9 percent), the San Diego region (7 percent), and the balance of the state (12 percent). By the 1997-99 period this distribution had changed only slightly. In terms of the proportion of a region's entire workforce, IW were over-represented in three regions: Los Angeles County (21 percent), the Central Valley (24 percent), and unincorporated areas, here termed "Balance of the State" (20 percent). On average, and as reported earlier, IW represented approximately 17 percent of the state's workforce.[4]

IW also tended to be younger than formal workers throughout the 1990s, although the age composition of both groups appears to have shifted up. Approximately 40 percent of IW were aged 16 to 30 compared to just under 30 percent of all formal workers.

Not unrelated to formal workers' relatively older age profile is their higher level of educational attainment. Table 2 shows that about one-half of all IW have less than a high school diploma, whereas only 5 percent of formal workers do. Furthermore, the proportion of IW with at least some college declined in the 1990s from 27 to 22 percent. Fully 78 percent of IW had no more than a high school diploma compared with only 27 percent of formal workers.

It is also the case that IW are overwhelmingly nonwhite (with Latinos constituting between 48 and 59 percent) and formal workers are mostly non-Latino and white (figure 5). Further, it is noteworthy that among formal workers the proportion of non-Latino whites has been falling, from 69 to 63 percent between 1990 and 1999.

While the proportion of all formal workers who were foreign-born remained constant (20 percent) during the past decade, it rose among IW from 50 percent in 1990 to 60 percent in 1997-99. Unsurprisingly, and although more than 40 percent of all IW were born in the United States, most co-workers of unauthorized Mexican immigrants tend to be ethno-racial minorities and other foreign-born persons.

Also unremarkable is the finding that IW were more likely to have been impoverished, and to have accessed either Aid to Families with Dependent Children (AFDC) before 1997 or Temporary Assistance to Needy Families (TANF) after January 1, 1997.[5] While 9 percent of all formal workers remained poor throughout the 1990s in California, the share of IW who were poor rose from 27 to 37 percent.[6] And while use of the AFDC/TANF program during the 1990s has dipped slightly for all workers, IW use is twice that of formal workers. Still, only 2 percent of all IW accessed AFDC or TANF in the past decade.

Higher incidences of poverty and AFDC/TANF participation by IW are also inversely related to earnings (table 2). Measured by both the mean and the median, IW hourly earnings remained flat and those of formal workers rose during the 1990s. Specifically, mean IW (formal worker) hourly earnings equaled between $9 and $10 ($16 and $19), and median hourly earnings of IW were about $7 and between $12 and $14 for formal workers. Put differently, while median IW hourly earnings fell from 63 to 57 percent of the workforce average during the 1990s, the median hourly earnings of formal workers rose from nine to 15 percent. This evidence, complementing that reported concerning the precariousness of IW, lends additional credence to the notion that working informally for many in California provides relatively marginal benefit.

Lastly, while very small proportions of either IW (6.4 percent) or formal workers (about 2 percent) are reported not to have filed an income tax return between 1994 and 1999, the proportion of formal worker non-filers rose from 1.9 to 2.6 percent between the 1994-96 and 1997-99 periods. Contrary to public perception, the proportion of IW who did file a tax return remained constant at 94 percent.

Policy Implications

Policy-makers have embraced two main strategies in an effort to eradicate IE. First, eradicating IE via government intervention in an effort to achieve full employment and a comprehensive welfare system is the strategy touted by most politically left-of-center advocates. This is commonly based on the assumption of worker exploitation or state revenue deprivation. The idea is that IE is not necessary because the state can create full employment and a universal safety net. Increasing economic polarization in California and a welfare system that aims primarily to protect the working poor suggests, however, that neither full employment – i.e., work that pays at least a "living wage" (Pollin and Luce 1998; Ciscel 2000) – nor a comprehensive welfare state is forthcoming anytime soon. Apart from perhaps improving the working conditions of those working informally, it is probable that trying to regulate IE away will be a waste of time and resources.

An alternative view emphasizes the importance of deregulating formal employment. Those who see the state mainly as a constraint to free market exchange and economic prosperity claim that it is responsible for IE and should therefore reduce its efforts to regulate firms' activities. By doing so, the state would remove the institutional distinction between formal and informal work. Those supporting a deregulatory or a regulatory approach both seek to eliminate IE. The difference is that the former views the market, and the latter, the state as antagonist. In reality, the market and the state are inseparable institutions that jointly set the parameters by which a market economy grows (Marcelli 2000; Williams and Windebank 1998).

The deregulatory, like the regulatory, approach also incorrectly assumes that full employment is possible, although it is perhaps more likely in the presence of fewer state constraints on business activity. The drawback with a purely neoliberal perspective, unfortunately, is that it fails to address the widening earnings differential and poverty in California (Marcelli and Joassart 1998; More et al. 2000), and their probable negative impact on IE and future economic growth (Marcelli 2000; Niggle 1998). As one prominent mainstream labor economist admits, "inequality is destructive whenever the low-wage

citizenry views society as unfair, when it views effort as not worthwhile, when upward mobility is viewed as impossible or as so unlikely that its pursuit is not worthwhile" (Welch 1999).

Consequently, an effective solution to IE needs to begin by acknowledging that it may increase in the presence of either a highly regulatory state or in its absence. It is a structural component of California's economy (Marcelli, Pastor, and Joassart 1999; Williams and Windebank 1998). Most importantly for policy formation, a portrait of the level and character of informal work is needed, and this is what this chapter has offered. The finding that the level of IE parallels the business cycle, and that IE provides only marginal compensation and employment security leads promptly to the conclusion that the state has an indispensable role to play (Marcelli 2000; Gordon 1997). Indeed, the state cannot be neutral toward IE and its deleterious effects. It has not been in the past. It is not in the present. And it will not be in the future (Dugger 1998). This is not to suggest that IE is necessarily a partisan issue, however. Simply encouraging economic growth either by reducing state regulations on business activity or by expansive fiscal policy neglects the detrimental aspects of IE outlined above.

Williams and Windebank (1998) maintain that because we can no longer realistically expect the natural culmination of modern economic growth (Easterlin 1996, 2000) to result in the elimination of IE, and because IE tends to reinforce existing socioeconomic disparities, paid IE ought to be replaced with both formal work that pays a living wage and unpaid informal work be given value by newly created institutions. Key to this institutional "new economics" perspective is that IE cannot be replaced by formal employment alone regardless of whether one advocates a regulatory or a deregulatory approach. Rather, IE is viewed as a symptom or "an indictment of the present system of distributing income and work in society" (Williams and Windebank 1998). Their proposed solution is to introduce a basic income scheme that ensures a family subsistence level of income for those who work ("top-down") and greater public assistance that helps people help themselves ("bottom-up"). It is premised on the idea that full employment is neither desirable, primarily because formal employment often does not attend to real needs, nor attainable, as the present period of prosperity has arguably demonstrated.

Historically, job assurance/guarantee programs, an example of a top-down approach, have relied upon government as the employer of last resort. When the formal labor market fails to generate sufficient employment or income opportunities, policy-makers have turned to the state to stimulate (1) private labor demand or (2) public employment. Examples include the Employment Relief Appropriation Act of 1935 and the Employment Act of 1945. Unlike the New Deal, the latter legislation took a conservative turn and relied primarily on Keynsian fiscal expansion to create jobs. The thinking was that the economy simply needed a kick-start and new jobs would ensue. Experience in California following the "workfare" legislation of 1996, however, has shown that under the current institutional structure the formal labor market is incapable of providing work that pays subsistence-level earnings for all who desire them (Solow 1998). Rosewell (1996), for instance, reports that just over half of all income is derived from employment, thus calling into question the supposed inextricable link between work and welfare. Consequently, it seems that more than the formal labor market is needed to construct a desirable distribution of work and earnings.

Specifically, policies aimed at creating 40-hour-per–week jobs that pay enough for people to subsist – sometimes called a "living wage" – are necessary (Pollin and Luce 1998). While some of the living wage movements that have been implemented in places like Baltimore and Los Angeles have been criticized for not calling for a sufficiently high wage and limiting attention to only firms contracting with the state (Ciscel 2000), recent evidence suggests that approximately twice the official poverty income level is required for such "self-sufficiency" (Ciscel 2000; More et al. 2000). Contrary to the belief of most Americans that those who work hard ought not be poor, empirical evidence shows that "most of the working poor are poor not because they choose to work too few hours, but because their wages are too low and their jobs fail to provide full-time year-round employment" (Kim 1998). The current $5.75 minimum wage in California, despite being 50 cents above the national minimum and as Los Angeles's Republican Mayor has claimed, is too low and ought to be at least doubled.

Although a recent Public Policy Institute of California (PPIC) report claims that most workers in California earning the minimum wage are not adults, and thus raising the minimum will not improve the

economic circumstances of most workers (O'Brien-Strain and MaCurdy 2000), two counter-arguments may be made. First, evidence from the California Budget Project as reported in a recent study of the Los Angeles County workforce indicates that fully 86 percent of all workers earn at or below the minimum are adults, and 70 percent work full-time (More et al. 2000). Consequently, regional variation concerning the demographic profile of minimum wage earners would recommend against a general policy of not raising the minimum standard based on statewide findings. Second, even if it were the case across all regions in California that an increase in the minimum wage would likely not affect adult workers - assuming adults tend to be more productive than non-adult workers - such an increase would potentially lead to an upward shift in the entire earnings structure due to what economists call "substitution effects." In short, raising the minimum for less productive non-adult workers would result in a shift in demand toward adult workers who have subsequently become relatively less expensive to firms. This, in theory, would place upward pressure on adult wages, indirectly improving the earnings of adults.[7]

State-sponsored job-generating public works projects are a second possible top-down approach that may motivate IW to move into the formal economy, but evidence indicates that only those projects that appear to be run like a private enterprise, and assign jobs that conform to the accepted social hierarchy of work, are likely to be accepted by the public (Long 1999). In California, this means that the public would more likely be open to the provision of manual labor jobs or those in the service sector rather than higher-status jobs. Of course, these are the very jobs that often do not pay enough to lift a family out of poverty. Fortunately, survey results suggest that if a larger social need is being met through jobs – e.g., improving individuals' "work ethic" or advancing the formal economy – then the twin goals of providing decent jobs for those at the lower end of the social job hierarchy and garnering public support can be balanced (Long 1999). Clearly workfare as we know it is not accomplishing this (Solow 1998).

At the other end of the policy spectrum are bottom-up strategies that attempt to harness regional resources undervalued or ignored by the formal market economy. One example of this is the Local Exchange Trading Systems (LETS) that began formally in British Columbia in the mid-1980s. It was embraced by more than 100 heads of state at the United Nations conference on Environment and Development at Rio de Janeiro in 1992, and spread rapidly in Europe during the 1990s (Pacione 1997; Williams 1996). Briefly stated, these trading systems "favor locally produced goods, local control of enterprises, and local self-reliance" (Seyfang 1996). Instead of using cash for exchange, participants announce the goods and services they want to buy or sell through a local registry, negotiate the price directly with potential buyers or sellers, and then notify the system's treasurer who debits or credits a person's LETS currency account. While these systems are only a decade old and have shown little promise of generating a substantial number of new well-paying jobs, they are meeting needs often unmet by the formal economy and making pseudo-formal much activity that has been previously informal. The objectives of LETS are to (1) facilitate import substitution, (2) augment local control over a community's economic affairs, and (3) ameliorate the social inequalities created by both formal and informal work (Williams 1996). In short, LETS are fulfilling their stated objectives but could be substantially improved by increasing "their size so as to make a wider range of goods and services available" via public policy (Williams 1996).

In the United States, evidence of such efforts is the "Time Dollars" or "Active Citizens' Credit" (ACC) approach that has been implemented since the mid-1980s (Cahn 1999, 1994; Williams and Windebank 2000). Participants acquire one hour worth of credit for each hour that they work (e.g., childcare, transportation, cooking, home improvement), which they can subsequently "cash in" by requesting an hour's work from someone else in the system (Cahn 1999). In short, "time dollars are local tax-exempt currency that one earns by helping others. One hour of service equals one time dollar . . . As such, time currency allows those aspects of people's lives for which the market economy assigns no value to become activities redefined as valued contributions, and they give society a way to recompense activities that the market does not" (Williams and Windebank 2000). By 1998 more than 200 professionally-managed time banks and credit programs were in place in the United States, typically costing about $50,000 to run and serving thousands of members (Cahn 1999). Most importantly for those

unfamiliar with such institutions, federal and county governments throughout the country, as well as private firms, are increasingly partnering with local communities to reduce administrative and marketing costs and to reach a broader customer base. These systems are in place and providing economic benefits to consumers, firms, and government.

There is a second example of locally based strategies to address marginalized IE in California. In the San Diego, Los Angeles, Sacramento and other regions in the state, labor and community-based organizations (CBOs) are increasingly involved in the formation of public policies geared toward stimulating shared regional economic prosperity. Their ability to do so has been significantly aided by investment in "capacity building" by private foundations such as the Rockefeller Foundation and the California Endowment. One implication is that the more technically sophisticated and regionally-oriented CBOs and community leaders become, the more likely it is that business and government decision makers will welcome their participation, and that issues such as IE and inequality will be addressed openly (Marcelli 2000).[8] Greater community participation in regional economic planning, for instance, has already lead to CBO involvement in choosing which industry clusters to target for optimizing regional growth and minimizing earnings inequality (Marcelli 2000), and could eventually result in serious discussion about how to create regionally collaborative time bank accounts that improve social networks (Pastor and Marcelli 2000).

Conclusion

Results reported here for California during the 1990s appear to contradict the informalization thesis.[9] As the California economy expanded, the estimated level of informal employment (IE) declined slightly. However, it is important to note that IE also appears to be positively correlated with the business cycle. Before 1994-96 both California's economy and the level of IE shrunk, but afterwards both grew.

We are left with a picture of the California economy that is heterogeneous, both formal and informal. More than two million Californians worked informally during the 1990s and were more likely: (1) to have worked for private business establishments in either the Agriculture/Mining or Personal Service sector and to have been working part-time, (2) to have resided in southern California or the Bay Area, (3) to have been younger, less-educated, ethno-racial minorities, and foreign-born, and (4) to have been impoverished, used welfare, earned lower hourly wages, and not to have filed an income tax return. Fully 94 percent of informal workers, however, did file tax returns.

While taken together these results support Williams' (1996: 88) claim that poorer populations "tend to engage in more exploitative, routine and monotonous informal work" (the marginality thesis), it is important to remember that our sampling methodology rivets attention on those informal workers who worked in lower- to middle-income occupations and is not likely to capture many professionals and small business owners who worked "off the books." Nonetheless, this is the first study to estimate the level and character of IE over time in California, and given the widening economic disparity in the state in the midst of prosperity and a new welfare system premised on work, it is those informal workers who are positioned at the lower- to mid-level of the income distribution that should received the lion's share of policy-makers' attention.

To sum up, this chapter has discussed two top-down and two bottom-up strategies to create decent jobs that will compete with IE and render welfare less necessary. Both perspectives are needed, and any government program hoping to make work rewarding for all who are willing and able to work will need to address the public's need to believe that it is market-based and supportive of self-sufficiency. Simply promoting regional economic growth without acknowledging that the formal economy cannot meet all human needs will result in the continued presence of millions of informal workers in California who work for poverty-level wages under less-than-healthy conditions due to insufficient opportunities generated by the official economy.

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Endnotes

[1] Given that we implemented an eight-question legal status schematic employed in our survey in an effort to verify legal status responses, the 9.6 percent non-response rate for any legal status question is understandable. For instance, excluding the (1) three more technical questions that asked non-citizen respondents to identify whether they obtained legal permanent residence (e.g., a "green card") status via one of the Immigration Reform and Control Act's (IRCA's) amnesty provisions, and (2) one that asked what kind of non-immigrant visa they acquired (e.g., student, business, tourist), non-response rates for the less technical legal status questions (e.g., whether a person was a US citizen, a legal permanent resident, or a non-immigrant visa holder) were less than one percent. Such low non-response rates for such sensitive questions may seem odd given the negative effects of the November 8, 1994 passage of California's Proposition 187, which attempted to bar unauthorized immigrants' access to public resources and may reasonably be expected to have reduced unauthorized immigrants' willingness to reveal their actual legal status. However, the participation of a known Mexican university and Mexican-origin interviewers may have helped to increase the probability of truthful legal status responses. Nonetheless, in the analysis below I attribute UMI legal status to those who (1) admitted being unauthorized or (2) whose responses to the more technical legal status questions contradicted their responses to the general legal status questions.

[2] LS = *f* (Age, Sex, Education, Years U.S. Resident).

[3] It is not possible to predict legal status among foreign-born Mexicans from 1991 to 1993 because the March CPS did not include questions concerning country of birth until 1994. Consequently, estimates may be generated for 1990 from the 1990 PUMS and from 1994 onward using the March CPS files.

[4] Future analysis is needed to learn whether these results are consistent with evidence from the European Union that suggests IE is more likely to be found in affluent rather than impoverished regions (Williams and Windebank 1994).

[5] The AFDC program was replaced by the TANF program following passage of the 1996 Welfare Act.

[6] We use the 150 percent poverty threshold.

[7]Evidence concerning how increasing the minimum wage in the present economic context would impact unemployment suggests a negative effect (Pollin and Luce 1998: 32-39).

[8] The 1997 passage of the Unpaid Wages Prohibition Act in New York is perhaps the most encouraging example of how a grassroots organizing campaign, in this case by immigrants who cannot vote in a wealthy conservative suburban area, can succeed in raising the pay standards of informal work (Gordon 1999).

[9] Further, they are consistent with the only other two micro-level studies of informal employment (IE) to date (Mogensen, Kvist, Kornmendi and Pedersen 1995; Fortin, Garneau, Lacroix, Lemieux and Montmarquette 1996).

CHAPTER 5

LABOR RELATIONS IN CALIFORNIA AGRICULTURE

PHILIP MARTIN

Introduction

Agriculture is the only industry in California in which the major issue at the dawn of the 21st century are the same as they were at the dawn of the 20th century, viz., what is the proper role of federal and state regulation of wages and working conditions in a labor market staffed largely by immigrant workers with few other U.S. job options? Farm labor was a public policy concern in 1900 because agriculture was the state's largest employer (Daniel 1981); farm labor is a public policy concern in 2000 because agriculture is the port of entry for many immigrants from Latin America. These newcomers, many with little education, receive wages, benefits, and career prospects that are universally acknowledged to be near the bottom of the California job ladder.

The general effect of 20th century farm labor policies was to first increase the farm labor supply, usually via immigration, and then, in response to lagging farm wages and benefits, to develop farm worker assistance programs to offset some of the poverty and lack of opportunity associated with low wages and poverty for migrant and seasonal farm workers and their children. In 1999, federal and state governments spent about $1 billion on special educational, health, housing, and training services for farm workers and their children, equivalent to about one-sixth of the earnings of the target workers.

Farm Labor History

California has had large and specialized farms dependent on migrant and seasonal workers since it became a state in 1849. The two most important dates in early California agricultural history were 1869, when the transcontinental railroad was completed, lowering transportation costs and encouraging crop production that required seasonal workers, and 1882, when the state's fledgling labor-intensive agriculture was challenged by the Chinese Exclusion Act. Farmers realized that paying seasonal workers only when they worked reduced labor costs and raised land values.

There was widespread resistance to a system of large and specialized farms dependent on migrant workers, and stopping Chinese immigration was expected to force the break up of large farms, since it was thought that Americans and European immigrants would be unwilling to be seasonal farm workers. However, farmers turned to waves of other immigrants and migrants willing to accommodate to seasonality because they had few other U.S. job options These groups consisted of Japanese in the 1890s and early 1900s, Mexicans in the 1920s, Dust Bowl migrants in the 1930s, and Mexicans since the 1940s.

Federal farm labor policy almost changed in the 1930s. Farm workers were excluded from both the National Labor Relations Act of 1935 and the Fair Labor Standards Act of 1938, but a series of books and reports in 1939-40 set the stage for applying federal labor laws to at least the largest U.S. farms. The

U.S. Senate's Education and Labor Committee subcommittee chaired by Robert LaFollette (R - WI) provided a detailed picture of how farmers and their banking and processing allies were able to prevent the unionization of farm workers, and John Steinbeck's novel, *The Grapes of Wrath*, added an emotional touch to the calls of farm labor reformers.

Instead of farm labor reforms, World War II gave farmers the labor shortage argument they needed to win permission to recruit Mexican workers, laying the groundwork for contemporary Mexico-U.S. migration. Under a series of so-called Bracero (strong arm) programs that began as a wartime emergency in 1942, between one and two million Mexicans gained experience working on U.S. farms.

As with many guest worker programs, the number of Braceros got larger, and the program lasted longer than expected. Admissions peaked in the mid-1950s, when almost 500,000 Braceros were admitted each year. Over the objections of farmers and the Mexican government, the Bracero program was ended unilaterally by the U.S. in 1964, amid predictions that U.S. fruit and vegetable prices would skyrocket and that the non-farm U.S. workers employed to transport and process the commodities harvested by Braceros would be left jobless as labor-intensive crop production shifted to Mexico.

Predictions about how agriculture would adjust to the end of Mexican Braceros proved to be false. Instead of shifting to Mexico, fruit and vegetable production rose with higher incomes and more health-conscious Americans, and mechanization reduced the need for hand workers in many commodities. The absence of newly arrived workers without other U.S. job options enable the fledgling United Farm Workers (UFW) union to win a 40 percent wage increase for some table grape pickers in 1966.

Farm wages rose rapidly between 1965 and 1980, as the extension of labor laws to agriculture, union activities, and relatively few newly arrived immigrants led to a construction-style labor market in parts of California agriculture, marked by high hourly and weekly earnings when seasonal work was available, and maximum unemployment insurance payments when it was not.[1] The UFW, seeing the hiring halls of the construction and maritime industries as models, wanted to be the major organizing device in the farm labor market, operating hiring halls at which workers would register to be deployed from farm to farm. Worker seniority and benefits would be tied to the union hiring hall, not to the farm on which a seasonal worker happened to be employed.

The UFW's high water mark came in 1973, when it claimed 180 contracts covering 40,000 farm jobs and 6 7,000 members. As farmers became convinced they would have to have a farm workers union, many expressed a preference for the Teamsters; farmers could switch their union representative without elections since there was no federal or state law regulating elections and bargaining in agriculture. This changed on August 28, 1975, when California's Agricultural Labor Relations Act went into effect. The UFW won most of the 450 elections held in the last four months of 1975, but when the UFW called a strike in 1979 in support of a demand for a 40 percent wage increase, growers learned that they could get commodities harvested by turning to farm labor contractors and custom harvesters, many of whom hired unauthorized workers. Other vegetable employers signed agreements that included the wage increases sought by the UFW, but then went out of business. After the Mexican peso was devalued in 1982, the number of unauthorized migrants in the farm work force increased rapidly, and the number of UFW contracts fell to less than 20.

The UFW hoped that the Immigration Reform and Control Act of 1986 would usher in a new era in farm labor. The UFW was active in helping unauthorized workers to become legal immigrants, assuming that assistance for legalization would translate into support for the UFW and a willingness to press for higher wages. Many unauthorized foreigners were legalized in 1987-88 - 550,000 in California - but illegal immigration continued at high levels, and California experienced a recession in the early 1990s, so that the farm labor market was often described as "flooded," and there were more cases of wage and benefit cuts than increases. (Martin and Taylor 1990; Commission on Agricultural Workers 1992). Instead of voicing the need for change via the UFW, most legalized farm workers exited the farm work force for non-farm jobs. They were replaced by newly arrived and often unauthorized workers, so that, in 1996-98, an estimated 52 percent of California crop workers were believed to be unauthorized.

Table 1 U.S. and California Farm and Non-farm Hourly Earnings: 1962-98

Average Hourly Earnings ($/hour)

United States	1962	1965	1968	1971	1974	1977	1980	1983	1986	1989	1992	1995	1998
All hired farm workers	1.01	1.14	1.44	1.73	2.25	2.87	3.66	4.11	4.70	5.36	6.08	6.54	7.47
Nonfarm Production Workers	2.39	2.46	2.85	3.45	4.24	5.25	6.66	8.02	8.76	9.66	10.57	11.43	12.78
US Ratio: Farm to nonfarm	0.42	0.46	0.51	0.50	0.53	0.55	0.55	0.51	0.54	0.55	0.58	0.57	0.58
Percentage Change: Farm		13%	26%	20%	30%	28%	28%	12%	14%	14%	13%	8%	14%
Percentage Change: Nonfarm		3%	16%	21%	23%	24%	27%	20%	9%	10%	9%	8%	12%
California													
All hired farm workers	1.27	1.42	1.67	1.97	2.78	3.53	4.51	4.85	5.64	6.39	6.41	6.83	7.71
Nonfarm Manufacturing Workers	2.79	3.05	3.44	4.02	4.76	6.00	7.70	9.52	10.36	11.16	12.19	12.55	13.66
CA Ratio: Farm to nonfarm	0.46	0.47	0.49	0.49	0.58	0.59	0.59	0.51	0.54	0.57	0.53	0.54	0.56
Percentage Change: Farm		12%	18%	18%	41%	27%	28%	8%	16%	13%	0%	7%	13%
Percentage Change: Nonfarm		9%	13%	17%	18%	26%	28%	24%	9%	8%	9%	3%	9%
	1962	1965	1968	1971	1974	1977	1980	1983	1986	1989	1992	1995	1998
US Ratio: Farm to nonfarm	0.42	0.46	0.51	0.50	0.53	0.55	0.55	0.51	0.54	0.55	0.58	0.57	0.58
CA Ratio: Farm to nonfarm	0.46	0.47	0.49	0.49	0.58	0.59	0.59	0.51	0.54	0.57	0.53	0.54	0.56
	1962	1965	1968	1971	1974	1977	1980	1983	1986	1989	1992	1995	1998
CA to US Farm Earnings Ratio	1.26	1.25	1.16	1.14	1.24	1.23	1.23	1.18	1.20	1.19	1.05	1.04	1.03
CA to US Nonfarm Earnings	1.17	1.24	1.21	1.17	1.12	1.14	1.16	1.19	1.18	1.16	1.15	1.10	1.07

Sources: Nonfarm-- US Bureau of Labor Statistics, www.bls.gov/webapps/legacy/cesbtab3.htm and www.bls.gov/top20.html

US farm earnings: 1962-1971 from USDA, NASS, 1991, p 94. Average wages for hired workers paid hourly wages only

1974-1980 from USDA, NASS, p 100, Average hourly earnings for all hired workers

1980-1998, from USDA, NASS, Farm Labor (Quarterly) http://usda.mannlib.cornell.edu/

Figure 1 Ratio of CA and US Farm to Nonfarm Hourly Earnings: 1962-98

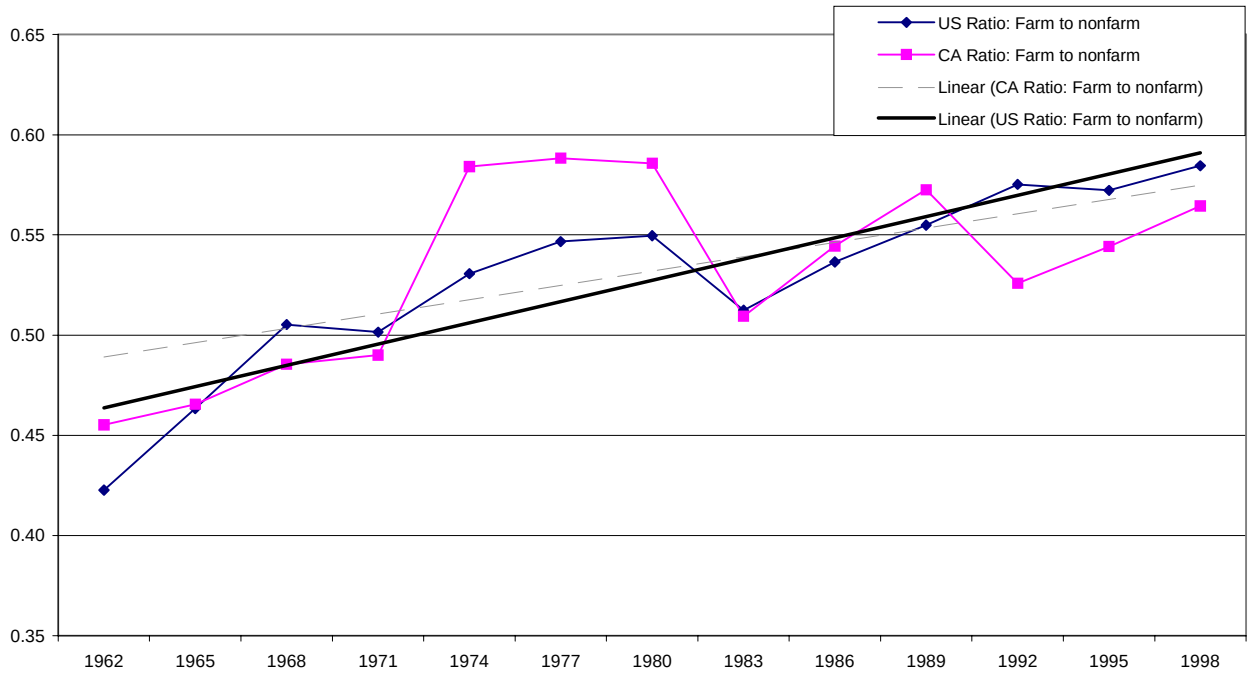
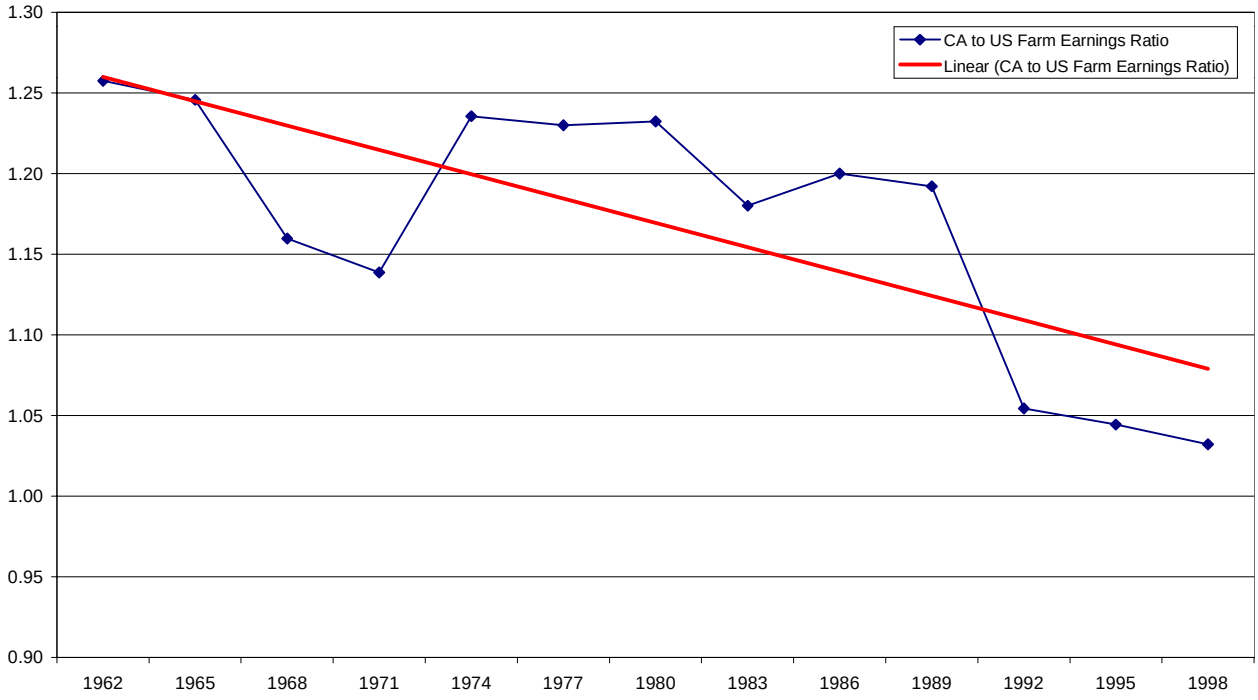


Figure 2 Ratio of Average Hourly Earnings of all Hired CA and US Farm Workers: 1962-98



FVH Agriculture

Most U.S. and California farms are family operations, owned and operated by a farmer and family members. Many family farms produce crops and livestock, ensuring that there is some work to be done year-round. However, the farming subsector that accounted for half of California's $27 billion in farm sales in 1998 is different. So-called FVH farms that produce labor-intensive fruit and nut crops, vegetables and melons, and horticultural specialties such as flowers and nursery products usually rely on hired workers to do over 90 percent of the farm's work.[2] California produces about 44 percent of the U.S.' FVH crops, and hires 40 percent of U.S. farm workers.

Most farm employers, even in California, are relatively small; their inclusion in regularly published data obscures the concentration of production and employment on the largest farms. In most commodities, the 10 largest of 500 to 2,000 growers account for 30 to 60 percent of total employment. However, the major source of detailed farm employment data, the Census of Agriculture, groups labor data in categories that mask this concentration. In 1997, the COA reported that 36,450 California farms hired 549,265 workers--in the COA, a worker hired on two farms was double counted, meaning that there were fewer than 549,265 individuals hired on farms responding to the COA. However, the COA does not report the number of workers who are brought to farms by farm labor contractors. The 9,500 farm employers who hired 10 or more workers accounted for 85 percent of the workers hired in California, i.e., 26 percent of farm employers accounted for 85 percent of workers hired. More detailed data would show that the largest 500 to 1,000 farm employers accounted for 50 to 60 percent of these hires.

Table 2 California Farm Employers and Workers Hired: 1997

	Farms	**Workers**	**Farms**	**Workers**
1-4 Workers	58%	8%	21,060	46,055
5-9 Workers	16%	7%	5,841	37,983
10 or More	26%	85%	9,549	465,227

Source: Census of Agriculture, California 1997

Many of the businesses that benefit from the work of farm workers do not appear as farm employers in employment data. For example, Dole Fresh Vegetables in Salinas is listed under wholesale trade, SIC 5148, Fresh Fruits and Vegetables as are D'Arrigo Brothers and Fresh Express, two other major Monterey County lettuce producers.[3] Many of Dole's U.S. subsidiaries do not hire farm workers directly. Instead, they contract with U.S. growers to produce, under Dole standards, fruits and vegetables that Dole buys, an arrangement that makes these contract growers the employers of the workers producing Dole commodities. Dole's Bud Antle subsidiary, based in Salinas, CA, employs 7,000 farm workers sometime during a typical year to fill about 3,000 jobs harvesting lettuce and other vegetables; these workers are represented by Teamsters Union Local 890.

Farm Workers

Most U.S. and California workers are Hispanic immigrants, an impression left by visiting fields as well as examining data, and most farmers are older non-Hispanic white men. Farming is often described as a career and a way of life; farm work is a short-term job, not a career, usually lasting less than 15 years for seasonal workers.

Farm labor data are notoriously unreliable, and the two major sources of farm labor data paint very different pictures of farm worker characteristics. The Current Population Survey[4] reported that farm laborers were 29 percent Hispanic in 1993 (Ilg 1995). The U.S. Department of Labor, charged with determining whether there were likely to be farm labor shortages in the wake of IRCA, decided to develop a new survey of farm workers. The National Agricultural Worker Survey (NAWS) was designed to measure entrances to and exits from the farm work force each year. Unlike the CPS, which is based on random sampling of households and thus generates an estimated population and distribution of farm

workers as well as worker characteristics, the NAWS interviews farm workers who are employed in on crop farms in selected U.S. counties and generates a profile of these workers.

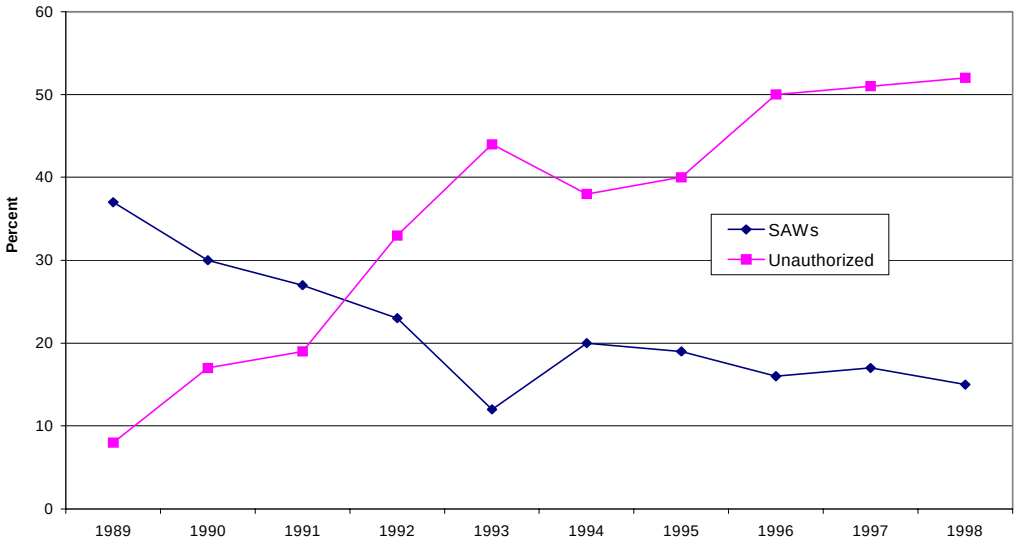
The major change in the NAWS data in the 1990s is the falling percentage of workers legalized in 1987-88 and the rising percentage of unauthorized farm workers. In 1989, 37 percent of U.S. crop workers were Special Agricultural Workers who had been legalized under IRCA; by 1998, their share had fallen to 15 percent. In 1989, about 8 percent of U.S. crop workers were unauthorized; that percentage rose to 52 in 1998. Crop workers in California are much like crop workers in the rest of the U.S.. In the mid-1990s, 95 percent were foreign-born, including 91 percent who were born in Mexico.[5] About 53 percent were in the U.S. less than five years, and 26 percent were in the U.S. less than two years. About 53 percent were in the U.S. less than five years; 26 percent less than two years. About 48 percent were of the farm workers interviewed were legal immigrants, and 42 percent were unauthorized, with the unauthorized share rising 3-4 percent a year.

About 82 percent of California crop workers were men; their median age was 30, and 63 percent were under 34. About 61 percent were married; most married farm workers have families, with an average three children each. About 60 percent of California farm workers in the mid-1990s had their families living with them while they are doing U.S. farm work, while 40 percent left their families outside the U.S. Two-thirds of the workers interviewed had less than eight years education. Their median years of schooling was six.

Crop workers in California do farm work for about half the year at hourly wages slightly above the minimum. Over the year, farm workers averaged 23 weeks of farm, three weeks of non-farm work and 26 weeks without U.S. farm work. About 91 percent were employed in fruits and vegetables, and most of their jobs did not involve harvesting and about 70 percent were pruning, irrigating and other non-harvest operations. Workers averaged 42 hours a week while they were doing farm work at $5.69 an hour, for average weekly earnings of $239 and annual farm earnings of $5,500 while 55 percent earned less than $7,500 in 1996.

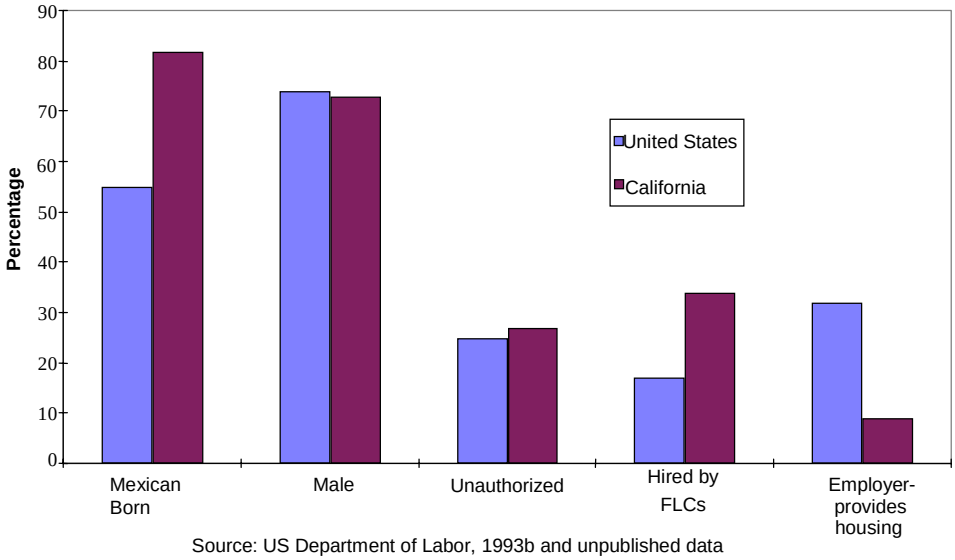
About 70 percent of crop workers were hired directly by growers or farm management companies in the mid-1990s; 30 percent were hired by FLCs. Workers employed by FLCs had lower hourly earnings and were twice as likely to be paid piece rate wages as workers hired directly.

Figure 3 Shares of Legalized and Unauthorized US Farm Workers: 1989-98



Source: National Agricultural Workers Survey (http://www.dol.gov/dol/asp/)

Figure 4 Characteristics of US and California Farm Workers: mid 1990s



Source: US Department of Labor, 1993b and unpublished data

In California, farm workers must be covered by unemployment insurance (UI) and workers compensation (WC) insurance. Both programs are experience-rated programs, which means that employers with fewer workers seeking UI benefits or medical treatment for workplace premiums pay lower taxes and premiums. Most farm employers pay WC premiums that are 10 to 20 percent of wages, and UI taxes average 5 percent of wages. In addition, employers and workers share equally the 15 percent Social Security tax, and workers pay for State Disability Insurance, which provides partial wage replacement to employees who are unable to work because of pregnancy or non-work related illness or injury.

Mandatory insurance premiums and taxes add 23 to 33 percent to the cost of employing a farm worker earning $6 an hour. In the non-farm economy, workers get a variety of work-related benefits, including health insurance, vacation pay, and pension benefits, and that cost employers the equivalent of 15 to 25 percent of earnings. Relatively few seasonal farm workers receive such fringe benefits. For example, only 5 percent of crop workers reported that they received health insurance in the mid-1990s, 4 percent earned paid vacations, and 5 percent lived in employer-supplied housing. One reason is that a benefit such as health insurance is expensive for low-wage workers. Non-farm U.S. employers paid an average $1 an hour for health insurance in 1998 ($2 an hour for union workers).[6] Health insurance is relatively more expensive in agriculture because wages are lower. For example, the 1996-2000 contract between the UFW and Bruce Church Inc, a Salinas lettuce grower, guaranteed workers at least $7 an hour, and BCI contributed $1.10 an hour for health insurance, meaning that health insurance alone added 16 percent to labor costs.[7]

California manufacturing workers earned an average $13.66 in 1998, or more than twice average farm worker earnings. On an annual basis, full-time equivalent workers in agriculture earned an average 40 percent as much as manufacturing workers, with full-time equivalent livestock workers averaging $20,000, almost half the $42,000 in manufacturing, and full-time equivalent agricultural service workers averaging $15,000, about 37 percent as much as manufacturing workers.

The 3R's of the Farm Labor Market

Recruitment

Labor markets handle three essential tasks - recruitment, reward or motivation, and retention. The California farm labor market deals with these "3R" tasks in unique ways. For example, farm operators rarely recruit or speak directly with prospective employees. Instead, as one farmer said: "when we need 30 workers, we call up the farm labor contractor, and he brings a crew." Recruitment and supervision are usually done by bilingual foremen or FLCs in the language of the worker.

Farming has been consolidating so that fewer and larger farms account for an increasing percentage of farm sales. Economic efficiency would suggest that a similar consolidation should be occurring in farm employment, so that workers needed to fill short duration jobs report to central clearinghouses from which farmers recruit workers. There are several candidates to be clearinghouses for seasonal farm workers, including the public employment service (ES), union hiring halls, private labor exchanges and employer associations. Throughout the 20th century, employer associations and the ES played major job matching roles in seasonal agriculture, but their importance declined sharply in the 1970s and 1980s.

There are 800,000 to one million job matches a year in California agriculture, and most are made by (1) bilingual foremen employed directly by farmers and (2) farm labor contractors. Recruitment is usually done without employer ads or requests for workers to the ES; it is more common for foremen to tell current employees that additional workers are needed, and to recruit them via networks of current employees. In this manner, relatives and friends from the same village or area of Mexico often wind up working on the same U.S. farm.

Farm labor contractors (FLCs) are often blamed for the ills of the farm labor market. FLCs are intermediaries who, for a fee, organize workers into crews and arrange jobs for them; many FLCs also provide workers with other services, from financing their illegal border crossing to housing and meals. FLCs have a different relationship with farm employers than with farm workers. It is usually hard for a FLC to ?cheat? a farm employer, since farm employers often survey themselves to arrange a standard piece rate as well as the FLC commission or overhead fee. For example, farmers may agree to pay $10 a bin for picking oranges or peaches, plus a 32 percent overhead for the FLC to cover payroll taxes, toilets and drinking water, and recruitment and payroll expenses.

Farm workers hired by FLCs, on the other hand, are often newly arrived from Mexico, and do not know about prevailing piece rates, minimum wages, or required payroll taxes and deductions. As the U.S. Industrial Commission explained in the early 1900s, contractors dealing with immigrants from the same country can "drive the hardest kinds of bargain" with newly arrived immigrant workers because they know the circumstances from which farm workers come (Fisher 1952).[8] Many of the most abusive violations of labor laws continue to be found among FLCs hiring newly arrived immigrant workers.

Beginning in the 1960s, the federal and state governments attempted to regulate FLCs to prevent them from taking advantage of vulnerable workers, first by getting to identify themselves to the government by registering. Since then, a three-tiered registration system has developed: FLCs must be registered with the federal, state, and local governments (county agricultural commissioners), and state registration requires providing fingerprints, a bond, and passing a test demonstrating knowledge of labor, safety and pesticide regulations. The state maintains a list of about 1,200 registered FLCs, and encourages growers to utilize only registered FLCs by making growers jointly liable for labor law violations committed by unregistered FLCs.

Bills in the California Legislature that would have automatically made growers jointly liable for the labor law violations committed by FLCs on their farms failed in 1993 and 2000. Worker advocates argue that strict joint liability is needed to get growers to ensure that the FLCs who bring workers to their farms abide by labor laws. Farm employers counter that, just as homeowners who hire a contractor to work on their homes are not liable for labor law violations committed by the contractor while he has a crew working at their homes, so farmers should not be liable for violations committed by independent FLC businesses when they have crews on their farms.

Reward or Motivation

Wages reward and motivate work. Many farmers use a so-called "warm body" test in hiring, hiring as many people as were willing to work, but keeping labor costs constant and predictable with a diverse work force by paying piece or task rate wages.[9] Piece rate wages have persisted longer in agriculture than in non-farm industries, in part because most farm employers were exempted from federal and state minimum wage laws after they were applicable to non-farm employers and workers.

After minimum wage laws were applied to agriculture, farmers were required to keep records of the hours each employee worked and how many units of work each employee accomplished. If the employee did not work fast enough at the grower-set piece rate to earn the minimum wage, the employer had to make up the difference. Most farm employers terminated workers who did not work fast enough to earn the minimum wage at the piece rate offered, establishing an "iron triangle" between minimum wages, piece rates, and minimum productivity standards. For example, if the minimum wage is $5 an hour, and the employer is paying a piece rate of $10 a bin, then workers must pick an average one-half bin an hour to earn the minimum wage; slower workers may lawfully be terminated.

Piece rate wages motivate workers to work fast, requiring an employer monitor of the quality of the work done. However, the detailed record-keeping requirements to ensure compliance with minimum wage laws encouraged more farmers in the 1990s to pay their workers hourly wages. Hourly wage systems increase the need for monitoring the pace of work. Crews of workers paid hourly wages often include a foreman or crew pusher who sets the pace for workers walking through a field hoeing weeds, or require harvest workers to follow a conveyor belt through the field and place lettuce, broccoli, or melons on it - the speed of the machine controls the pace of work.

Retention

The third key labor market task is retention, identifying and keeping the best workers employed during the season and getting them to return next season. The job ladder in agriculture is short, resembling a pyramid with a wide base and short sides. Upward mobility within agriculture usually involves movement from seasonal harvester to longer-season equipment operator or irrigator or crew leader.

Most farmers are more interested in ensuring that enough seasonal workers will be available when they are needed rather than in ensuring that a particular worker identified by the farm employer's personnel system returns next year. This leads most farm employers to favor collective pressure on the federal government to provide agriculture with easy access to foreign workers. An analogy to water management illustrates the contrast between individual and collective recruitment and retention strategies. Crops can be irrigated by flooding fields with water (flood irrigation) or by running pipes along or under each row that drip water to each plant (drip irrigation). Flood irrigation usually requires collective action to maximize the amount of water available, but minimal investment on the farm to apply the water to crops. Drip irrigation, on the other hand, requires far less water, but more on-farm investments in pipes and infrastructure. Farmers who traditionally used flood irrigation turned to drip as water prices rose.

For the past 120 years, there have been fears of farm labor shortages. However, farm labor has never been a binding constraint that prevented the expansion of labor-intensive crop production. Indeed, the federal government has usually permitted the recruitment of legal foreign farm workers or tolerated the presence of unauthorized workers, encouraging the flood rather than the drip farm labor strategy.

The U.S. in 2000 may be nearing another farm labor crossroads. Unemployment rates nationally are at their lowest rates in several decades, and farm workers able to find non-farm jobs are exiting the farm work force, to be replaced by unauthorized workers. Farmers thus become vulnerable to the removal of these unauthorized workers, and they are pressing for another easy-access guest worker program. Farm worker advocates oppose another guest worker program; instead, they favor an amnesty for at least some currently illegal workers. However, if the experience of the 1987-88 farm worker legalization repeats itself, newly legalized farm workers will quickly move on to non-farm jobs. Unless illegal immigration is slowed, vacant jobs will once again be filled by newly arrived unauthorized workers.

Unions and Bargaining

Unions have been active in California agriculture throughout the 20th century, but (1) most union organizing and bargaining efforts proved to be short-lived and (2) there is no continuity between the unions involved in the three major periods of union activity, viz., the Industrial Workers of the World before World War I, the Cannery and Agricultural Workers Industrial Union in the early 1930s, and the UFW after the mid-1960s. The longest-running union contract in California agriculture is that between Teamsters 890 and what is now Dole's Bud subsidiary in the Salinas area; the first Teamsters-Bud agreement was signed in 1961.

In 1975, California enacted the Agricultural Labor Relations Act, which granted farm workers the right to organize and bargain collectively with farm employers and established a state agency, the Agricultural Labor Relations Board (ALRB), to supervise elections to determine if workers wanted to be represented by unions and to adjudicate unfair labor practice complaints (Fogel 1985). The ALRB has supervised 1,600 elections on California farms and certified 10 unions to represent farm workers on about 800 farms since 1975 (ALRB). The union presence in agriculture is most pronounced in four areas: (1) southern California dairies, (2) large Central Valley nurseries, (3) fresh mushrooms in coastal areas and (4) coastal vegetables. In 2000, there are five major unions representing about 30,000 farm workers on 300 farms; two-thirds of these union contracts cover dairies in southern California.

The best known farm worker union is the United Farm Workers (UFW), which burst onto the national scene in 1965 in support of a strike called by largely Filipino grape pickers organized into the Agricultural Workers Organizing Committee, an AFL-CIO affiliate (Martin 1996; Majka and Majka 1982). The UFW won a 40 percent wage increase for some table grape harvesters in 1966, and Cesar Chavez was featured on the cover of *Time* in 1969. The UFW was able to win contracts covering most grape and lettuce workers in the early 1970s, before the ALRA was enacted, but the UFW found it very difficult to re-negotiate first contracts, both before and after the ALRA came into effect. In some cases, the UFW was certified to represent workers in the late 1970s, and had not yet negotiated first contracts in 2000.

The major farm worker union story in the 1990s has been the rebirth of the UFW after Cesar Chavez died April 23, 1993. At the time of this death, Chavez was praised as the "Latino Martin Luther King." Chavez has become the U.S. Latino with the most streets and schools named for him; in August 2000, California created a paid holiday for state employees in his honor. However, the UFW largely stopped organizing farm workers in the 1980s. Chavez's son-in-law, Arturo Rodriguez, became president of the UFW in 1994, and the UFW launched an aggressive organizing effort. Between 1994 and 2000, the UFW was certified to represent a peak 4,000 workers on 18 California farms, and negotiated five contracts. However, the UFW continues to be able to turn only about one-fourth of its election victories into contracts, and continues to be decertified as bargaining representative on one or two farms a year.

The UFW plays a major role in farm labor, Latino, and immigration issues. The major UFW organizing effort of the 1990s aimed at organizing 15,000 to 20,000 strawberry workers in the Salinas area. The UFW targeted Coastal Berry, the employer of 1500 workers, in what AFL-CIO President John Sweeney in 1997 called the most important union-organizing drive in the U.S. A competing farm worker group, the Coastal Berry Farm Worker Committee, won a July 1998 election to represent Coastal workers. This election was overturned in May 1999, and a new election was held in June 1999, with the Committee winning the right to represent about 900 Coastal workers in northern California and the UFW 600 in southern California. In November 2000, the UFW called off a boycott of California table grapes launched in 1984.

The UFW is a labor organization whose goal is to organize and represent farm workers in their dealings with farm employers. There are other labor organizations and a variety of self-help and advocacy groups that also seek to represent and assist farm workers, including the Teamsters and the United Food and Commercial Workers Union. As newly arrived farm workers come to include more indigenous peoples from southern Mexico and Central America, self-help groups have sometimes been certified to represent farm workers.

The UFW could also use its reputation as an advocate for newly arrived immigrants to represent non-farm workers or to become a broader social movement. The UFW in July 2000 petitioned for an NLRB election to represent non-farm citrus packing workers. The UFW has affiliates that operate radio stations and build and rehabilitate housing, and is reportedly considering opening service centers that would provide translation, financial and immigration services in Los Angeles and other cities to which ex-farm workers familiar with the UFW gravitate after they leave the farm work force.[10]

Conclusions

Labor relations in agriculture were described at mid-century as "much ado about nothing" (Jamieson 1945). In 2000, most farm workers continue to be employed on farms that do not have contracts with farm worker unions.

The influence of farm worker unions should not be underestimated. The fact that farm worker unions might organize dissatisfied workers has encouraged some farm employers to maintain wages and benefits at higher-than-prevailing levels. The major impact of farm worker unions such as the UFW in the 21st century could come from their ability to influence public policies that affect farm worker wages and working conditions in a number of policy areas that range from immigration and health insurance policy to labor laws and their enforcement.

The goal of many farm labor reformers during the 20th century was to "upgrade" farm labor to make it resemble the non-farm labor market, with employers "taking responsibility" for farm workers by restructuring their operations to employ fewer workers for longer periods. Farm labor markets did not change significantly, but many non-farm labor markets adopted farm labor features, in the past 20 years, increasing theiruse of intermediaries to assemble and deploy contingent and other temporary workers. If intermediary-dominated labor markets that hire mainly immigrant farm workers spread in the nonfarm sector, farm and non-farm labor markets may evolve similarly in a manner never envisioned by 20th Century farm labor reformers.

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Endnotes

[1] The average hourly earnings of hired farm workers in California rose a remarkable 41 percent between 1971 and 1974, as measured by the USDA. The earnings of California manufacturing workers rose 18 percent during this period.

[2]There is no official definition of labor intensive. In FVH agriculture, labor costs are typically 15 to 35 percent of farm revenues. Farmers receive 18 to 20 percent of the average retail price paid for fresh fruits and vegetables, and farm labor costs are about 6 percent of a $1 head of lettuce or pound of tomatoes.

[3] Dole Fresh Vegetables is a division of Dole Food Company, the world's largest producer and marketer of fresh fruit, vegetables and flowers with 1999 global sales of $5 billion and 60,000 employees.

[4] The CPS is a monthly survey of households that asks, inter alia, about the employment of each adult. During the 1970s and 1980s, a supplemental questionnaire was added to the December CPS, and 1,500 of the 60,000 households typically included someone who worked in agriculture for wages during the previous year. Since the CPS is a random sample of all U.S. housing units, each of the 1,500 farm worker households was considered representative of 1,667 who were not interviewed, i.e., the hired farm work force was estimated to be 2.5 million.

[5] These data are from interviews with 1,885 crop workers employed in nine California counties who were interviewed between 1995 and 1997.

[6] Employer-paid health insurance premiums were $2,000 to $4,000 a year in 1998, or $167 to $333 a month, adding 6 to 13 percent to a $2,500 a month wage.

[7] Bruce Church paid 3 percent of each workers earnings as a pension contribution, and 1 percent for vacation pay.

[8] In July 2000, a Stockton-based FLC was accused of driving exactly this type of hard bargain with newly arrived Mexican workers: Bautista Farm Labor was charged with knowingly hiring unauthorized workers and maintaining two sets of books, deducting payroll taxes from all workers, but forwarding them to government authorities only for legally authorized workers.

[9] A piece rate wage of $10 for picking a 1000 pound bin of apples or oranges means that the cost to the farmer is $0.01 per pound for a worker averaging two as well as for a worker averaging four bins a day. However, in an eight-hour day, the slow worker earns $2.50 an hour; the fast worker $5 an hour.

[10] Dana Calvo, "UFW Toils in new field, cities," *Los Angeles Times*, May 26, 2000.

CHAPTER 6

A SMALL RAISE FOR THE BOTTOM

MICHAEL REICH AND PETER HALL

Introduction

Despite the longest economic boom in California's history, a large and increasing number of low-paid workers are not sharing in its prosperity. Indeed, from the mid-1970s to the mid-1990s real hourly wages fell steadily for most workers, by around 25 percent for the lowest fifth of the California workforce and 20 percent for the median worker, and rose only for the top fifth of the workforce. As a result, wage inequality in California is now at record levels and much higher than in the rest of the U.S.

For the vast majority of California wage earners, real hourly pay began to grow again only in 1996, at the beginning of the most recent round of minimum wage increases. By 1999 pay at the tenth percentile reached $6.04, 12.1 percent higher than in 1995, while pay at the fiftieth percentile grew by 2.8 percent, to $13 and pay at the ninetieth percentile grew 9.2 percent, to $32.61. [1] As a result, the rate of growth in wage inequality has slowed. This timing suggests that the 1996-98 minimum wage increases may have played a part in a *"small raise for the bottom."*

In this chapter, we first discuss the size and growth of low-wage employment in California since 1980 and then examine rising wage inequality in the state in the same period.[2] We go on to present a sustained examination of the 1996-98 California minimum wage increase, which raised the state minimum by 35 percent, from $4.25 to $5.75, or $.60 above the national minimum.

We focus on the extent to which the 1996-8 minimum wage increases can be given credit for the reduction in wage inequality that occurred in the late 1990s. We find that the minimum wage increases did not negatively affect the strong employment growth over the period. At the same time it did benefit large numbers of low-wage workers. Through a series of statistical tests, we also find evidence that the minimum wage increases did reach the lowest income workers and households and did not spill over to high-paid workers.

We pay particular attention to the impacts of the policy on low-wage sectors of the economy. Precisely because minimum wages target the lowest paid in the labor market, we need to be careful that it does not lead to the displacement of the most vulnerable workers. Compared to the 1988 increases, the employment and wage effects of the increases were both more benign and more durable.

Finally, we discuss the potential impact of increasing the minimum wage further, to $8 (which is the 1968 level in 1999 dollars). The effects of the latest round of increases provide a useful basis from which to assess the likely effects of a further increase.

I. The Definition of Low Wages and the Number of Low-Wage Workers

For the purposes of this chapter, we use three different definitions of low-wages: less than $6 per hour, less than $8 per hour and less than $10 per hour.[3] We use the $6 figure as a benchmark of the 1998 California real minimum wage (in 1999 dollars) and refer to it as demarcating the lowest-wage workers. The $8 benchmark is very close to what the federal minimum wage would be today if it had maintained its real value since 1968. The

$10 benchmark represents an approximate living wage for a single full-time worker with one dependent, according to a number of recent household budget studies. It is also very close to what the 1968 minimum wage would be worth today if it had been indexed to *half* of the growth of labor productivity.

Table 1 shows that the 1999 workforce in these wage groups numbered about 1.5 million, 4 million and 5.7 million California workers, respectively. As a proportion of the work force, they corresponded to 9 percent, 25 percent and 36 percent of California workers, respectively.

Table 1. Number of Low Wage Workers, California 1999

Hourly Wage	**Number of Workers (millions)**	**Percent**
Up to $6	1.48	9.4
$6-8	2.52	16.0
$8-10	1.67	10.6
$10 and up	10.09	64.0

Source: Bureau of Labor Statistics and authors' calculations using CPS ORG data.

Since 1980 the number of low-wage workers increased rapidly both in absolute terms and as a portion of the workforce. As table 2 shows, in 1980 3.5 million workers earned less than $10 per hour and they amounted to 32.2 percent of the California workforce. By 1990 the number of such workers had increased to 5.4 million, amounting to 37.3 percent of the workforce. During the recession year of 1994 the corresponding figures were 5.2 million and 37.8 percent.

Table 2. Growth in Low-Wage Employment, California 1980-99

Hourly Wage (1999 Dollars)	**1980**		**1985**		**1990**		**1994**		**1999**	
	Number (millions)	Percent	Number (millions)	Percent	Number (millions)	Percent	Number (millions)	Percent	Number (millions)	Percent
Up to $6	1.22	11.4	1.50	12.4	1.62	11.2	1.83	13.0	1.48	9.4
Up to $8	2.23	20.7	2.79	23.1	3.83	26.5	3.62	25.7	4.00	25.4
Up to $10	3.47	32.2	4.06	33.6	5.39	37.3	5.18	36.8	5.67	36.0
$10 and up	7.31	67.8	8.01	66.4	9.07	62.7	8.90	63.2	10.09	64.0
	10.78	100.0	12.07	100.0	14.46	100.0	14.08	100.0	15.76	100.0

Source: Estimates for 1980, 1985 and 1990 were interpolated from hourly wage data (derived from CPS March Annual Demographic Survey) in Reed, Haber and Mameesh (1996), adjusted for the gender composition of the workforce (derived from the 1990 Population Census and authors' analysis of CPS ORG data); and Bureau of Labor Statistics. Estimates for 1994 and 1997 from author's analysis of CPS ORG data and Bureau of Labor Statistics.

The absolute number of low-wage workers has continued to increase even in the current economic boom. As table 2 indicates, the number of workers earning less than $10 per hour, in real 1999 dollars, increased from 5.2 million in 1994 to 5.7 million workers in 1999. After the 1996-98 minimum wage increases, the proportion and absolute number of workers earning below $6 per hour fell noticeably. But the growth in absolute employment was concentrated in the $6-8 and $8-10 ranges, leaving these low-wage groups' weight in the workforce unchanged.

The low-wage group is projected to continue to constitute an increasing proportion of workers in the state. Table 3 shows that middle-income jobs are set to decline as a proportion of all jobs. The growth in employment in the middle third of jobs as ranked by mean hourly wage rate will lag behind growth in higher and lower-paid jobs. The result is a declining middle in the California labor market.

Table 3. Declining Middle, California 1996-2006

Employment by wage	Projected percentage employment growth, 1996-2006	Examples of Occupations
Lowest paid third of jobs (Up to $10 approx.)	25.8	Waiters, cooks, packers, cashiers and retail sales, guards, cleaners, laborers
Middle paid third of jobs ($10-$17 approx.)	20.3	Drivers, office clerks, operators, maintenance, bookkeepers, mechanics
Highest paid third of jobs ($17 approx. and above)	27.0	Carpenters, accountants, registered nurses, managers, engineers

Source: Authors' combination of California Employment Development Department data, Occupational Employment Projections 1996-2006, and Occupational Employment and Wage Data 1998.

II. A Profile of the Low Wage Workers

The demographic profile of low-wage workers in California contains few surprises. Lower-wage workers are more likely to be those with less education, younger, women, Latinos, and live in lower-income households.

As table 4 shows, the lowest-wage workers – those earning up to $6 per hour - are more concentrated at lower education levels. Almost half (45 percent) of those earning less than $6 per hour have less than a high school diploma, as compared to around 6 percent of those earning $10 and above. This disparity raises questions of the extent to which mandated pay increases would result in displacement of the less-educated workers and their substitution by more-educated workers or whether public and private policy would respond with increased training and other productivity-enhancing programs.

In general, the lowest-wage workers are younger than better-paid workers (again, see table 4), but most of the lowest-paid are adults. Only 13 percent of those workers earning up to $6 per hour are 16 to 18 years old, and an even smaller percentage, 8 percent of workers earning $6 to $8 per hour are 16 to 18. In other words, nine out of every ten low-wage earners are adults.

While a proportion of minimum-wage workers are very young people just starting out in the labor market and can expect pay increases as they gain experience, these turn out to be a surprisingly small minority of low-wage workers. Table 4 shows that of workers who earn less than $6 per hour, 65 percent are over age 22 and half are 30 and older. Of workers who earn between $6 and $8 per hours, nearly three-fourths are over 22 and a bit over half are 30 and older. These are not workers who are just beginning to gain work experience.

Table 4 shows that women comprise 55 percent of the lowest-wage workers in California, but only 46 percent of all workers. Latinos also disproportionately hold low-wage jobs. Although they constitute 28 percent of the California workforce, Latinos hold almost half of the lowest-wage jobs. Asian-Americans and African-Americans are proportionately distributed across pay classes. White Californian workers are over half of all workers but only a third of the lowest-wage workers.

Table 4. Earnings and Selected Population Characteristics, California 1999

	Up to $6	$6 - $8	$8 - $10	$10 and up	All
YEARS OF SCHOOLING					
0 to 8	22.9	15.6	12.7	2.7	7.7
9 to 11	22.0	17.9	9.6	3.3	8.1
12	26.8	33.3	34.7	21.4	25.2
13 to 15	22.6	27.0	32.4	33.3	31.2
16 or more	5.7	6.2	10.6	39.4	27.9
AGE					
Up to 18	13.1	7.8	1.7	0.3	2.9
19-22	22.0	19.5	14.6	3.0	8.7
23-29	15.4	21.2	23.4	15.9	17.5
30-39	18.3	22.1	26.4	30.4	27.5
40-64	27.8	27.7	30.7	49.1	41.7
65 and older	3.4	1.8	3.2	1.4	1.8
GENDER					
Women	55.0	49.1	51.6	42.6	45.7
Men	45.0	50.9	48.4	57.4	54.3
RACE / ETHNICITY					
White non-Hispanic	33.3	36.4	43.0	61.8	53.1
African-American	4.4	5.8	6.3	7.0	6.5
American Indian	1.9	1.4	1.0	0.7	1.0
Asian-American, Pacific Islander	11.3	10.2	10.0	11.9	11.4
Latino	49.1	46.2	39.7	18.6	28.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: Authors' analysis of CPS ORG data.

Finally, the lowest-wage workers are concentrated in low-income households, as table 5 shows.[4] For example, among lowest-wage workers, 58 percent live in households with incomes of less than $30,000 per year, compared to 17 percent of those earning $10 or more. Conversely, three-quarters of those living in households receiving less than $15,000 per year earn less than $10 per hour, and over half of those living in households receiving between $15,000 and $30,000 per year earn less than $10 per hour. This pattern implies that a minimum wage policy does successfully target low-income households.

Table 5. Household Income and Earnings, California 1999

Annual household income (cumulative percentages)	Up to $6	$6-$8	$8-$10	$10 and up	All
Less than $15,000	32.0	25.1	17.2	4.6	11.7
Less than $30,000	57.7	53.5	43.8	17.0	29.4
Less than $50,000	81.1	76.6	70.7	41.6	53.9
Less than $75,000	90.6	89.3	87.2	65.9	74.1
All households	100.0	100.0	100.0	100.0	100.0

Source: Authors' analysis of CPS ORG data.

Although one-fourth of all California wage earners live in households receiving total incomes of $75,000 or more, only one-tenth of low-wage workers live in such households. These low-wage workers are of some policy interest, but they constitute a small group. A majority of the lowest-wage workers live in low-income households; this observation holds for all age groups but the very youngest workers. For all age groups, except those aged 16 to 18 years, fewer than 10 percent of the lowest-wage workers live in households with incomes greater than $75,000 per year.

Contrary to assertions that minimum-wage workers live in households that are spread evenly across all income groups (O'Brien and MaCurdy 2000), most of the lowest-wage earners live in low-income households. Policies that raise the income of the lowest-paid, including through mandated wage increases, can effectively target low-income households with relatively little leakage.

III. The Growth of Wage Inequality in California

Measured by household income, California ranks as the third most unequal state in the union. Between the late 1980s and the late 1990s the inflation-adjusted average income of the richest 5 percent of California households grew by 18 percent, while falling by 10 percent for the poorest fifth of households.[5]

As we shall see, wage inequality among individual workers also increased. The pattern of inequality increase was particularly disturbing because it involved substantial decreases in the real wages of the lowest paid workers.

Table 6 shows the trends towards increasing wage inequality in California for both men and women. The table also shows that wage inequality is higher than in the U.S. as a whole and that wage inequality has risen faster in California than in the U.S. as a whole. These patterns are particularly remarkable because wage inequality in the U.S. is higher than in any other industrialized country and because in the same period wage inequality in the U.S. rose faster than in any other country.

In this table wage inequality is shown by the 90/10 wage ratios from the mid-1970s to the mid-1990s. The 90/10 wage ratio measures the relative wage level of a worker at the 90th percentile, compared to a worker at the 10th percentile. The greater the 90/10 wage ratio, the greater the gap between those near the top and those near the bottom of the wage distribution, and therefore the higher the measured level of wage inequality. This inequality measure avoids many of the problems of extreme outliers associated with other inequality indicators. At the same time it is relatively well-suited to indicating the effects of minimum wage policies that have had most impact on the lowest-paid 10 percent of workers.

In the period from 1950 to the mid-1970s, wage inequality was sensitive to the economic cycle. In general, wage differentials would narrow during tight labor markets and widen when labor demand diminished, but there was no longer-term trend in either direction. The pattern since the 1970s has been quite different. Earnings inequality in California rose throughout the period 1975 to 1994, and the most dramatic increases occurred during recession years. Moreover, earnings inequality rose during these recessions because of substantial declines in the real wages of the lower-paid workers. For example, between 1989 and 1993, the wage for male California workers at the 20th percentile fell by 27 percent.

We have updated the wage inequality analysis using a closely related data source – the monthly outgoing rotation groups of the Current Population Survey. Our analysis of the data since 1994 suggests that the increase in inequality slowed in the 1997-99 period (see table 7).[6]

Table 6. The Growth of 90/10 Wage Ratios, California and the U.S., 1975-94

	Men		Women	
Year	**California**	**U.S.**	**California**	**U.S.**
1975	4.31	4.07	4.07	3.81
1976	4.31	4.16	3.73	3.75
1977	4.37	4.26	3.85	3.84
1978	4.55	4.23	3.76	3.77
1979	4.54	4.28	3.66	3.68
1980	4.60	4.37	3.77	3.71
1981	4.97	4.57	3.83	3.82
1982	5.13	4.81	4.00	3.87
1983	5.11	4.99	4.10	4.03
1984	5.25	5.12	4.33	4.17
1985	5.44	5.01	4.32	4.25
1986	5.48	5.13	4.75	4.48
1987	5.67	5.25	4.65	4.50
1988	5.68	5.18	4.49	4.54
1989	5.61	5.20	4.79	4.75
1990	5.76	5.24	4.91	4.59
1991	5.78	5.26	4.72	4.55
1992	5.99	5.30	4.82	4.64
1993	6.19	5.45	5.31	4.80
1994	6.16	5.49	5.34	4.83

Source: Computed from analysis of CPS March Annual Demographic Survey by Reed, Haber and Mameesh, 1996, Table D.5.

Table 7. Wage Inequality in California: 90/10 wage ratios, 1994-99

Year	All workers	Men	Women
1994	6.37	6.72	5.57
1995	6.10	6.46	5.68
1996	6.04	6.35	5.43
1997	5.80	6.27	5.06
1998	5.65	6.01	5.14
1999	5.67	6.22	4.95

Source: Authors' calculations using the CPS Monthly ORG data.

The decline in the 90/10 wage ratio measure of inequality results partly from real wage growth among the lowest-paid workers in the 1997-8 period. As table 8 shows, the real hourly wage at the 5th and 10th percentiles did increase in the late 1990s. At the same time, the median wage – the wage at the 50th percentile - did not increase. In other words, workers at the lowest end of the labor market received wage increases relative to those at the middle of the earnings distribution. It is particularly significant that the wage of the 5th percentile in 1999 was at $5.75 per hour, the same as the statewide minimum wage.

A key policy question is to what extent this increase is a result of the minimum wage increase, and to what extent it results from the natural trickle-down of the extended economic boom. We consider this question in the next section.

Table 8. Real Hourly Wage at 5th, 10th and 50th Percentiles, California 1994-99

	$ per hour of workers at:		
Year	5th percentile	10th percentile	50th percentile
1994	4.75	5.49	12.63
1995	4.85	5.39	12.64
1996	4.99	5.35	12.68
1997	5.22	5.70	12.53
1998	5.60	6.08	12.91
1999	5.75	6.04	13.00

Source: Authors' calculations using the CPS Monthly ORG data.

IV. The Impact of Recent Minimum Wage Increases in California

From October 1996 to March 1998, a series of federal and state increases raised the minimum wage in California from $4.25 to $5.75 an hour. Combined together, these changes represent a 35 percent increase in the minimum wage. They constituted the first increases since July of 1988, when the state's minimum wage was increased by 27 percent, from $3.35 to $4.25 The March 1998 increase raised the California minimum wage to 60 cents above the federal level of $5.15 an hour. The statewide increases have raised the real value of the minimum wage back to its July 1988 level, although it is still below the 1968 real value of almost $8 per hour. The new minimum wage level is also below the federal poverty level.

We analyze the impact of the increase by examining first the employment effects and then the direct and indirect effects on wages. We go on to examine the impact on low-wage sectors more closely, followed by the issue of whether low-skilled workers were displaced and, finally, the impact upon inflation.

To begin our analysis of the employment effects of a higher minimum wage, we first examine trends in employment-to-population ratios for various age groups before and after the wage increase. These ratios are preferable to unemployment rates because they also reflect labor force participation, which can increase when there are fewer discouraged workers, or when older workers, women and students decide to offer more hours in the workforce.

We would expect the employment-to-population ratios to fall if the minimum wage had resulted in layoffs or other negative employment effects. Table 9 shows that this did not occur. Over the period 1995-99, the employment-to-population ratios remained the same or increased in all age groups.[7]

Economic growth might have affected the figures in table 9 and masked any negative effects of the minimum wage increase. As is well known, macroeconomic conditions remain the most important determinant of overall employment trends. To distinguish the employment effects of macroeconomic conditions from minimum wage impacts we experimented with different measures of macroeconomic activity. We found that the sum of manufacturing and construction employment constitutes an excellent indicator of the business cycle or overall economic conditions. We will refer to this indicator as the MCE index.

Table 9. Employment-to-Population ratios, all age groups, California 1994-99

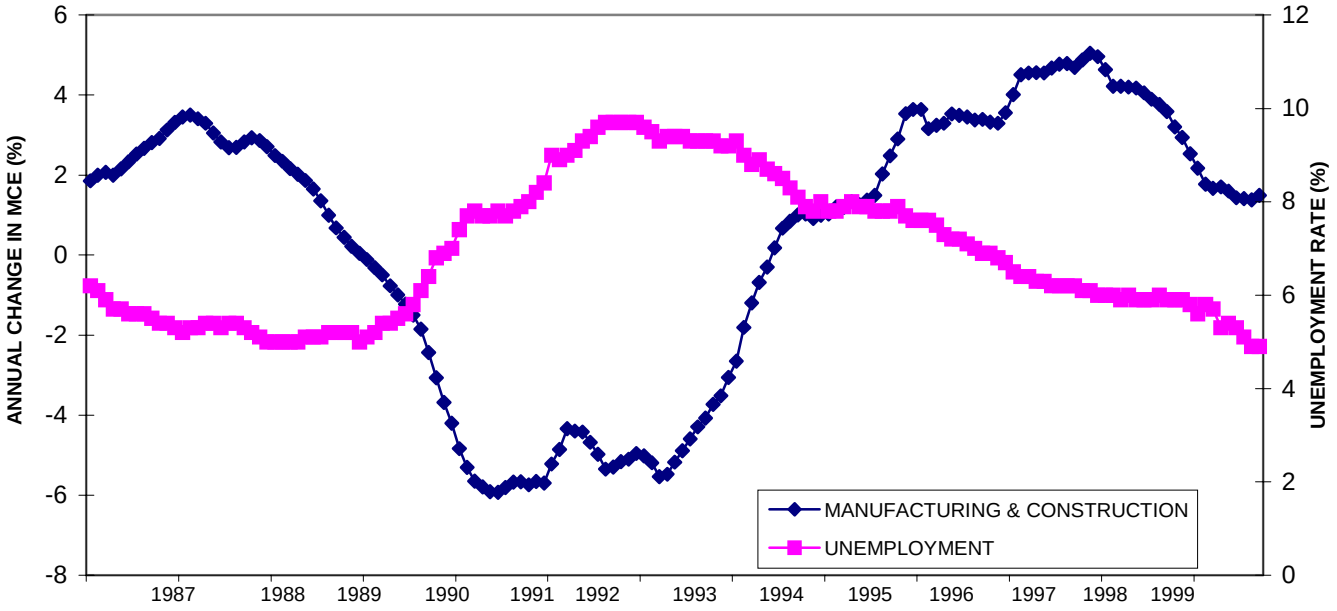
Age	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**
16-18	28.2	26.6	25.1	24.6	27.7	27.4
19-22	56.4	57.5	59.6	59.7	60.2	65.3
23-29	68.7	69.0	72.3	75.0	72.4	76.0
30-39	73.4	74.8	74.9	77.6	77.5	77.8
40-65	67.5	69.5	69.7	71.1	71.3	73.4
All ages	66.2	66.9	68.0	69.5	69.4	71.2

Source: Authors' calculations using the CPS Monthly ORG data.

Figure 1 shows the relationship between MCE growth and the unemployment rate. As we would expect, these curves generally move in opposite directions. When MCE growth is up, unemployment is down. (Note however that the unemployment rate did not rise in response to the sharp fall in the MCE growth rate in 1998, when the Asian financial crisis particularly affected manufacturing.)

We find that the close fit between overall unemployment trends and macroeconomic conditions in the state (as measured by MCE) was unaffected by the minimum wage changes. This finding suggests that the wage rates of the lowest paid workers could be raised without undermining the state's strong growth. However, this finding can only be provisional as it is possible to control more carefully for the employment effects of economic growth. We present such a "difference-in differences" test in the appendix and reach the same conclusion.

Figure 1: OVERALL UNEMPLOYMENT RATE AND MCE GROWTH, CALIFORNIA 1987-99



Source: Labor Market Information, Employment Development Department, State of California

The first column of table 10 shows the trend in the proportion of California workers that earned less than the new minimum wage of $5.75 per hour. Although not shown in this table, it is well known that a noticeable spike in the wage distribution is usually found at and just above the minimum wage. This table shows how the spike moved to higher wage rates with increases in the minimum.

Table 10. Effects of Minimum Wage Increases in California, 1994-99

	Percentage earning below:		
	$5.75	**$6.50**	**$7.25**
1994	11.7	15.0	21.2
1995	12.8	17.9	21.7
1996	11.8	18.2	21.8
1997	10.9	16.9	20.4
1998	5.8	14.9	20.8
1999	3.9	13.7	20.6
Change 1995-99	8.9	4.2	1.1

Source: Authors' analysis of CPS ORG data.

In 1995, one year before the increase, 12.8 percent of the workforce earned less than $5.75. A few of these workers are not covered by the minimum wage, but most could be expected to benefit. Indeed, in 1999, one year after the increase, the proportion earning less than $5.75 fell sharply, from 12.8 percent to 3.9 percent, or a change of 8.9 percentage points. The magnitude of this decline thus approximates the percentage of the over 15 million employed Californians who directly benefited from the $1.50 per hour minimum wage increases. Multiplying 8.9 percent by about 15 million implies that about 1.33 million California workers benefited from the minimum wage increases.[8]

The mean hourly wage in the less than $5.75 wage class in 1995 was $5.09 (not shown in the table). These workers averaged about 1,650 hours per year, including both full-time and part-time workers [9]. Consequently, the total monetary value of the direct wage increases to these workers amounted to over $1.4 billion dollars. This represents an increase of around 0.3 percent in the total wage and salary bill in the state.

It is useful to compare our results with the Card and Krueger's (1995) finding regarding the 27 percent increase in the 1988 California minimum wage. The 27 percent increase resulted in a five percentage-point drop in the proportion of workers earning below the new minimum wage in California, relative to other control states that did not increase their minimum wage. Overall, the 1996-8 increases in the California minimum wage had a larger effect than a smaller minimum wage increase in 1988.

A minimum wage increase not only benefits those earning below the new minimum wage level. In order to restore pay differentials, those earning above the new level may also receive an increase, although a smaller one than those given to lower-paid workers. The higher above the new minimum we go, the less we expect relative wages to change.

We refer to this equalization process as wage compression.[10] A strong or complete wage compression effect would occur if wages above the newly mandated minimum did not increase at all. On the other hand, a weak or zero compression effect implies that all the *relative* benefits of the policy for low-wage workers would disappear as all wages get ratcheted upwards, and in the end earnings differentials would not have narrowed. We show in this section that the compression effects of the 1996-8 minimum wage increases were significant, although not complete.

If workers at a given wage do experience wage compression, we should observe a decrease in the proportion that are below that given wage following the enactment of the minimum wage. We use this method to determine the wage levels at which wage compression attenuates and then disappears.[11]

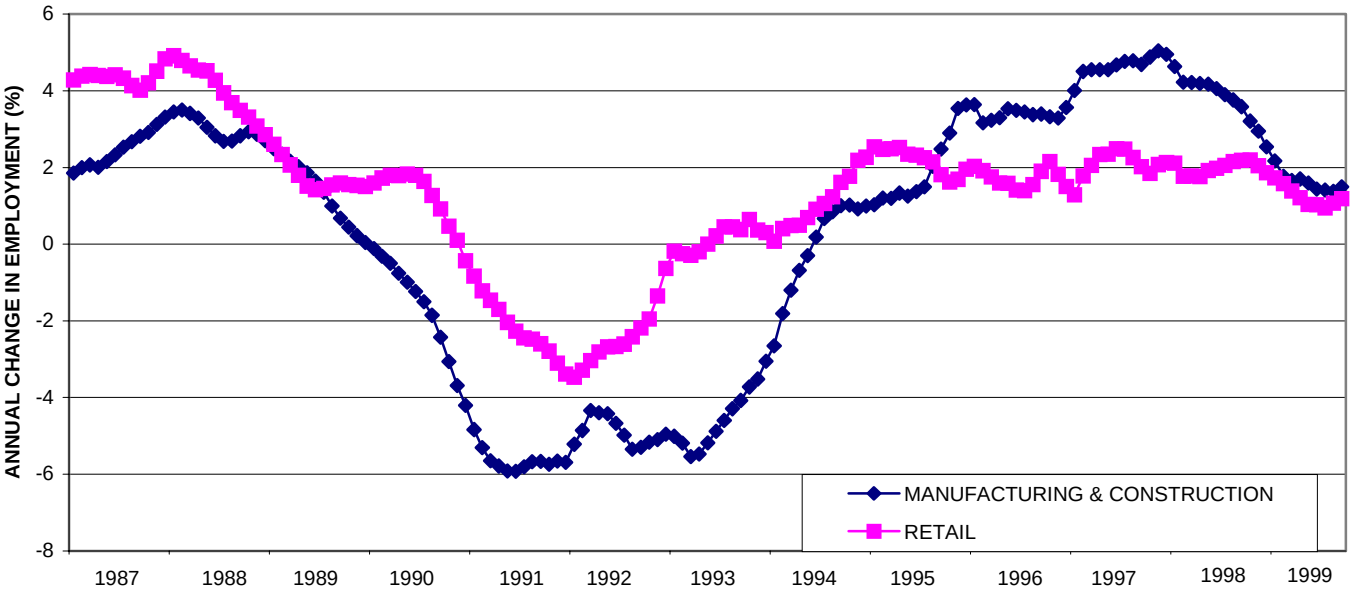
As table 10 indicates, at $6.50 per hour – which represents an increase of $0.75, or 50 percent of the mandated increase of $1.50 – a significant number of workers benefited from wage increases. The proportion earning below $6.50 fell from 17.9 percent in 1995, before the increase, to 13.7 percent in 1999, after the increase, or a 4.2 percent reduction. This means that 4.2 percent of all workers received wage increases that lifted them above $6.50. Table 10 also shows that 8.9 percent of workers received wage increases that lifted them to $5.75.

If there had been no compression effect, the proportion of those earning below every wage threshold would have fallen in the same proportion, but this did not occur. Our results imply a compression effect of nearly half (4.2 versus 9.8) within 50 percent of the mandated increase. The partial compression effect indicates that the minimum wage increases contributed to reduced wage inequality.

We also examined wage compression effects for workers at higher wage levels. At $7.25 per hour – an increase of $1.50 above the new minimum wage, a distance equivalent to 100 percent of the increase – only very small wage changes are noticeable. The proportion of workers earning below $7.25 per hour fell marginally, from 21.7 percent to 20.6 percent after the minimum wage increases (see table 10), indicating that wages above this level were not ratcheted up. These results concur with previous findings that most of the compression effects are concentrated immediately at or just above the new minimum wage level.

Although Card and Krueger (1995) report similar compression effects for the 1988 minimum wage increase round, our tables in the previous section indicate that wage inequality rose again soon after 1988. Inflation in those years was significantly higher than in the late 1990s and may have contributed to a ratcheting up of wages above the minimum. Inflation also eroded the real gains of the 1988 minimum wage increase relatively quickly. The larger increase in 1996-98 proved to have more benign and more durable effects.

Figure 2: MCE & RETAIL EMPLOYMENT GROWTH, CALIFORNIA 1987-99



Source: Labor Market Information, Employment Development Department, State of California

Our finding that the compression effects of the 1996-98 California minimum wage increase were relatively large has important implications for thinking about wage inequality. Table 10 showed that the real wage of the lowest percentiles did increase in the period 1994-99. With a constant wage at the 50th percentile, it is clear that the minimum wage increases had a noticeable effect in reducing wage inequality in the state. At the same time, the most affluent California earners – for example, those at the 90th percentile – experienced a real increase in wages. If the 1996-98 minimum wage increases had not been enacted, wage inequality in California would be even greater than it is today.

We also examine the retail industry, and especially the restaurant sub-sector. If the minimum wage increases have negative effects, we would expect these to appear most clearly in these low-wage, relatively labor-intensive sectors. We find that the negative impacts are relatively small in these sectors, thus supporting our contention that the overall negative employment impacts of the minimum wage increases are minimal.

In 1999, 35 percent of Californians earning less than $6 per hour were employed in the retail sector. Hourly earnings and hours per week in the retail trade sector are below those in most other economic sectors; mean earnings were just above $10 per hour statewide in the period 1995-1999. Over the longer term, we find a close relationship between MCE growth and growth in the retail sectors (see figure 2). In general retail employment growth rates from 1987-99 have been well-tracked by MCE growth rates.

Turning to the period of the 1996-8 minimum wage increases, we find no noticeable changes in employment growth in the low wage sectors (see figure 2). The retail sector has experienced stable employment growth in the period 1995-1999. Annual employment growth ranged between 1 percent and 2.5 percent over the entire period. Employment in the restaurant sub-sector also remained positive over the entire period, ranging between 0.5 percent and 4 percent.

Employment growth rate in both the retail sector and the restaurant sub-sector did not fall after early 1998, while the MCE growth rate fell from almost 4 percent to almost 1.5 percent in late 1999. This buoyancy supports our contention that the minimum wage increases did not have a negative impact on low-wage employment. In appendix A we present a more formal "differences-in-differences" test of the employment effects of the minimum wage increases. That test confirms the findings presented here.

Since many retail sector workers are employed on a part-time basis, another response to the rising minimum wage could be a reduction in the hours worked. Data from the state's Employment Development

Department show that this adjustment did not occur. During and after the period of rising minimum wages, the average weekly hours worked by retail workers stayed around 30 hours per week. In each of the years 1995-9, average hours worked per week ranged from a summer high of 30.5-30.9 hours, to a winter low of 29.3-29.6 hours. Employment displacement thus did not take the form of reduced hours of work.

One concern with increasing the minimum wage is that firms might respond by replacing their low-skilled workers with higher-skilled workers. This substitution is less likely to occur with a federal or state minimum wage increase than many individual employers might expect, since all employers are faced with the same wage increase. Given the fixed costs of hiring and initial training, a firm is more likely to prefer to retain and upgrade the existing workforce and add more skilled workers incrementally.[12] It is nonetheless important to examine the significance of such effects.

To gauge how much displacement might occur, we computed the average years of schooling at different wage levels. Table 11 shows trends from 1994 to 1999 in average years of schooling at the old ($4.00-4.99) and new ($5.50-6.49) California minimum wage levels.[13] We find that the average number of years of schooling at the different wage levels fell very slightly but did not change in any statistically significant amount during this period. This result suggests that displacement and substitution did not occur in response to the statewide minimum wage increase.

Table 11. Average Years of Schooling by Wage Level, California 1994-99

	$4.00 - 4.99	**$5.50 - 6.49**	**$7.50 - 8.49**
1994	10.2	11.4	11.9
1995	10.1	11.2	11.6
1996	10.9	11.0	11.9
1997	n/a	10.8	11.9
1998	n/a	10.7	11.7
1999	n/a	10.7	11.6

Source: Authors' analysis of CPS monthly ORG.
Note: $4.00-4.99 series not reported after 1996 due to insufficient sample size.

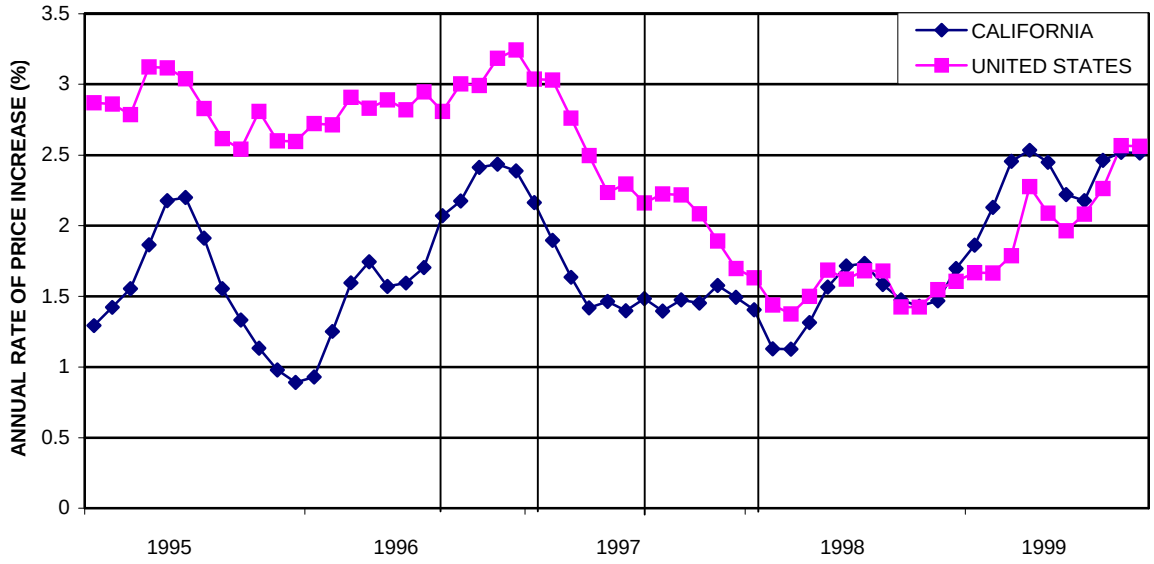
We can use the same data to suggest the maximum likely displacement effects of a larger wage increase. The average schooling for workers earning the current statewide minimum wage level ($5.50-6.49 per hour) is 10.7 years. At wage levels closer to recent minimum wage proposals, the average years of schooling is somewhat higher. For example, for workers in the $7.50-8.49 per hour wage class, the average years of schooling is 11.6, equivalent to slightly less than a high school diploma. This result represents a real but small degree of pressure to increase the average skill level of workers in response to a higher minimum wage. It can be the role of policy to enhance the probability that this adjustment occurs through expanded training rather than displacement.

Minimum wage increases could result in higher prices insofar as firms pass the costs of the wage increases to consumers. Recent studies have looked at price effects, but by using input-output models of the economy rather than empirical observation of actual price trends. For example, Lee and O'Roark (1998) examined the impact of the fifty-cents increase in the 1996 federal minimum wage by using an input-output model. They found that with a full cost pass-through, prices at eating and drinking establishments would rise by no more than one percent.

O'Brien-Strain and MaCurdy (2000) applied a similar methodology to model the potential impacts of the 1996 federal increase in California. They argue that increased prices are less likely to occur than employment displacement. Yet, they also suggest that many low-wage service industries do not face out-of-state competition and therefore can raise prices to meet higher labor costs. However, their method only simulates the magnitude of such effects without testing whether they actually occurred.

We have examined these possibilities using price increase data from the BLS. Figure 3 compares price increases in the U. S. and California over the period 1995-9. Until 1997, the rate of price increase was about one percentage point *lower* in California than in the rest of the U.S. In 1997 the national inflation rate began to fall, from around 3 percent to below 2 percent, but inflation did not fall as much in California. Thus, the rates of price increase converged over the period of the minimum wage increase. Although this timing suggests that the higher

Figure 3: PRICE TRENDS, U.S. AND CALIFORNIA, 1995-99

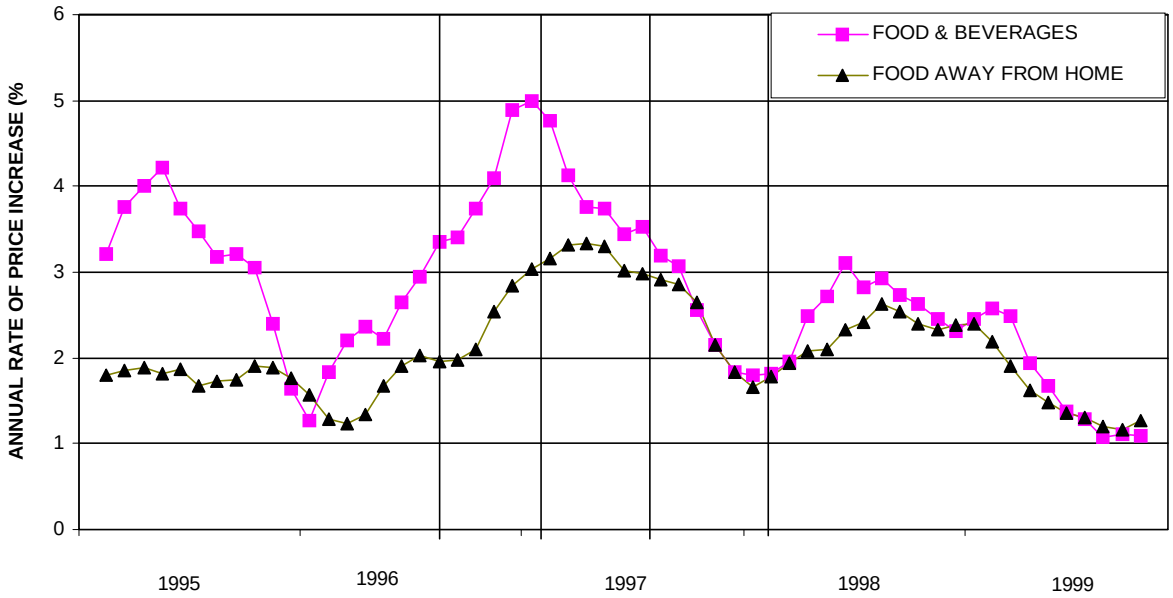


Note: Vertical lines denote Minimum Wage Increase. Source: US and Los Angeles All Items, All Urban Consumers Price Index, Bureau of Labor Statistics

minimum wage in California coincided with higher inflation relative to U.S. inflation, there are of course many other suspects as well. For example, a boom in housing costs accelerated during this same period in California.

To examine this question more closely, we examined California price increases for food eaten away from home with price increases for food eaten at home. The difference between these two categories is likely to be attributable to trends in labor costs in eating and drinking establishments. As we have already seen, such establishments employ large proportions of minimum wage workers.

Figure 4: PRICE TRENDS IN CALIFORNIA, FOOD & BEVERAGES AND FOOD AWAY FROM HOME, 1995-99



Note: Vertical lines denote Minimum Wage Increase.
Source: Los Angeles All Urban Consumers Price Index, Bureau of Labor Statistics

Figure 4 shows that the rate of increase in the price of food eaten away from home was higher than the overall consumer price index during and immediately following the 1996-98 minimum wage increases. However, the rate of increase in the price of food eaten away from home consistently has been below the rate of increase in food and beverage prices. Since agricultural products constitute up to a quarter of all inputs to the eating and drinking industry (Lee and O'Roark, 1998), it is possible that price increases of these inputs were pushing up the higher prices for food eaten away from home. If higher wages were also driving up restaurant prices, then we would expect an even higher rate of increase in restaurant prices. This did not happen. The results suggest that, at least in the restaurant sector, employers did not pass increased labor costs on to consumers.

V. Conclusions and Implications

In a world in which "everything else remains equal," an increase in one important business cost, the cost of labor, can generate undesired results. Someone has to pay for this cost; workers are fired, prices are raised and/or profits are slashed. In a prospective study of the 1998 California minimum wage increase, Macpherson (1998) suggested that this increase would cause more than 25,000 people to lose job opportunities. In a similar vein, O'Brien-Strain and MaCurdy (2000) argued that price increases resulting from federal minimum wage increases will take away more from California families than it will give back to them. It is now two years since the last increase, and we have been able to test these assertions empirically. We have found no evidence to confirm these dire predictions.

How then do we explain our finding that the minimum wage increases have had no discernable negative impact on overall and low-wage employment in California? When evaluating the impact of a policy, an economist asks what would have happened without the policy. It is unlikely that the unemployment rate could have fallen more rapidly than it did over the period under consideration; the downward fall indeed continued, from 6.9 percent in October 1996 to 6 percent in March 1998 and on to 4.8 percent in late 1999. The minimum wage increase does not appear to have slowed, and certainly did not reverse, this downward trend.

A second possible explanation is that the minimum wage increase had relatively little impact upon labor costs. In other words, if minimum wage rates are low and increases are relatively small, they have less impact on employment and it is economic growth that might have moved many of these workers above the minimum wage level. To explore this issue further we examined the low-wage retail sector, and here too we found no negative employment effects. Although the 1996-8 minimum wage increases had relatively little negative employment impact, negative effects were not noticeable even in the sectors where they should have been most visible.

A third possible explanation is that the minimum wage increases occurred during a period of unusually strong economic expansion, and that under other conditions it might have led to more negative employment effects. This argument does not constitute a criticism of the 1996-98 minimum wage increases. Minimum wage increases typically are enacted during a context of growth, and they did not derail the expansion. Rather, the minimum wage policy slowed some of the increasing wage inequality that was, until recently, a feature of the expansion.

We do know that employment conditions continued to become more favorable both in terms of the number of jobs and in terms of the wage levels of the lowest paid. We would argue that firms can and do adjust to minimum wage increases in a variety of positive ways, including raising productivity, reducing employee turnover and other positive steps. Indeed, economic theory would suggest that firms would make such adjustments in response to changes in incentives to do so, that "everything else does not remain constant." From this perspective, it is not surprising that the increases did not generate negative employment consequences.

What are the implications for further increases in the minimum wage, say to $8 per hour? The beneficial effects of increasing the minimum wage must themselves reach diminishing returns at some point. At present we do not know the level at which negative effects would begin to set in, but there are useful lessons from the previous two rounds of minimum wage increases in California.

An increase to $8 over the current $5.75 would amount to a 39 percent increase, which seems large and is greater than the previous increases. However, the 1988 increase amounted to 27 percent and the 1996-98 phased increase added up to 35 percent. A *phased* increase to $8 over several years therefore would not be very different in magnitude from recent increases.

According to our results, an $8 minimum wage put into place in an unphased manner would mean that about 25 percent of employed Californians would get pay increases up to $8 and that a much smaller percent would get increases above the minimum. Again, this figure seems large but it would be smaller if phased in over several years. It would still be well-targeted; well over three-fourths of California workers receiving less that $8 per hour live in households with below-median incomes. Such an increase would go a long way, but not the entire way, toward a return to the wage levels and measures of wage inequality in the state in 1980. It would also further incentivize low-wage employers to find ways to improve the productivity of their employees.

On the negative side, some employment growth might be curtailed among the youngest minimum wage workers. Since employment to population rates among those under 18 are already quite high by historical standards, some decline might be acceptable and well worth the overall benefits.

All in all, the evidence presented here from the 1996-98 round, and previous research on the 1988 round before it, suggests that the state can absorb another round of minimum wage increases much more easily than many commentators have suggested.

Appendix A:
Difference-in-difference Test for Employment Effects of 1996-8 California Minimum Wage Increases

When we study an increase in the minimum wage, a central methodological question is how to identify the effect of the change. If we see changing employment growth after a minimum wage increase, how can we ascertain that the change is related to the increase itself and not to some other factors? One way of addressing this problem involves a test called differences-in-differences.

The difference-in-difference test compares the change in employment growth before and after the increase in the minimum wage rate, in different sectors. We look at the difference-in-difference statistic for each sector, and in comparison to other sectors. If the change in employment growth is more positive after the increase than beforehand, this suggests that the increase had a positive effect. If the difference-in-difference is more positive in one sector compared to another, this suggests that the effect in this sector was more positive. In our test we have compared two potentially high-impact sectors, the low-wage retail and restaurant sectors, with the low-impact, high-wage manufacturing and construction (MCE) sector.

Within the low-wage restaurant and retail sectors, we found that the overall effect was positive. In both sectors the change in the employment growth rate was positive. In the case of the retail sector, change in employment growth rose from –2.2 percent to almost no change. In the case of the restaurant sub-sector, change in employment growth switched from around –1 percent to almost 1 percent. In comparison to the overall economy, these low-wage sectors did surprisingly well: the MCE growth rate fell sharply. As noted earlier, workers in these sectors generally earn much higher wages, and thus we would not expect these sectors to be as affected by the minimum wage increases. Rather, these sectors are indicative of overall economic conditions in the state.

We conclude that in relation to overall economic conditions, employment in the low-wage sectors was not harmed by the minimum wage increases, and in fact may have been improved by them.

Table A. Test of Differences-in-Differences for the October 1996 to March 1998 Minimum Wage Increases

	ANNUALIZED EMPLOYMENT GROWTH RATE		**DIFF. BEFORE INCREASE**	**ANNUALIZED EMPLOYMENT GROWTH RATE**		**DIFF. AFTER INCREASE**	**DIFF. IN DIFF.**
SECTOR	13 months before increase	1 month before increase		Month of increase	12 months after increase		
Retail	3.71	1.55	-2.16	1.77	1.58	-0.19	1.97
Restaurant	3.45	2.37	-1.09	1.81	2.63	0.82	1.90
Manufacturing & Construction	2.03	3.38	1.35	4.23	1.77	-2.45	-3.80

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Endnotes:

[1] Our primary data source in this chapter consists of hourly and weekly wage data that are derived from the Merged Outgoing Rotation Group of the monthly Current Population Surveys, conducted by the U.S. Bureau of the Census. For most of our purposes the California sample is large enough for annual statistical analysis. We use these data sources because they provide larger sample sizes and better indicators of hourly wages and labor market conditions than do the annual earnings data in the March Demographic files of the CPS that are used in other studies. Details are presented in Reich and Hall (2000).

[2] We omit here a discussion of the recent research literature and refer readers to our more detailed essay (Reich and Hall 2000).

[3] Throughout this chapter all wage rates are expressed in 1999 dollars, unless otherwise indicated.

[4] The CPS data on households report total income, with a topcode at $75,000. Income comprises all labor and non-labor sources, including government transfer payments. See the data appendix in Reich and Hall 2000 for details on the limitations of household analyses in this report.

[5] Reed, Haber and Mameesh, 1996; Economic Policy Institute and Center on Budget and Policy Priorities, 2000.

[6] A comparison of the inequality measures for 1994, the overlapping year, suggests that our data provide a slightly higher estimate of earnings inequality than Reed, Haber and Mameesh (1996). Reed (1999) also finds a slowdown in the increase in inequality in the late 1990s.

[7] In our more detailed essay we also examine whether the minimum wage resulted in reduced employment of particular categories of workers, for example, younger workers, or those still enrolled at school. The employment-to-population ratios of younger workers did not change over the period, regardless of school enrollment status.

[8] The calculation is a bit more complex since employment grew over this period. Using as a base the number of workers employed in California in July 1995, we estimate that 1,257,000 were likely to benefit. Based on the number of California employees in July 1999 we estimate that 1,403,000 workers might have benefited. The number in the text represents the midpoint between these estimates. The estimate also depends upon a counterfactual assumption regarding the effects of economic growth upon employment. See Appendix A for an estimate of this effect.

[9] On average, wage and salary earners in California work almost 2,000 hours per year. However, low-wage workers work considerably fewer hours per year than high-paid workers.

[10] This compression effect is equivalent to what others have called "ripple," "spillover" or "wage push" effects.

[11] Note that the results presented below are for real hourly wages, and thus do not need to be adjusted for a growth trend in the economy.

[12] This is exactly the pattern found by Acemoglu and Pischke (1999), who compared on-the-job training rates among low-wage workers in states with different minimum wages over the period 1987-92. Higher minimum wages were associated with higher training levels.

[13] We use one-dollar wage bands in order to obtain significant sample sizes in each cell.

CHAPTER 7

HIGH-TECH INDUSTRIES IN CALIFORNIA: PANACEA OR PROBLEM?

STEVE RAPHAEL, CLAIR BROWN, AND BEN CAMPBELL

I. Introduction

Since the mid-1990s, the California economy has been growing at a rate rivaled only by the strong growth associated with the military buildups of the mid-1980s. Since 1996, growth in state personal income has exceeded 4 percent annually (adjusting for inflation) and reached nearly 5.5 percent during 1999. In addition, the current state unemployment rate, hovering around five percent, is at its lowest level in three decades.

Many observers believe that employment growth in high-tech industries, such as computer services and telecommunications, is a major force responsible for the state's current good fortune and that job growth in these industries is the future of the California economy. Industry proponents point to the high wages of this sector and speculate that as the high-tech sector expands, wages will increase rapidly. Such sentiments are similar to arguments heard in the 1980s about the growth effects attributed to high-tech industries, which were fueled by federal military contracts. During the mid-1980s defense build-up under the Reagan Administration, California's defense-related industries grew rapidly and were responsible in part for a strong recovery from the deep 1982 recession. In 1984 real personal income grew at an annual rate of over 8 percent. Moreover, the 1984 unemployment rate (7.8 percent) had declined nearly two full percentage points from the previous year.

This chapter compares and contrasts the employment and wages in California's high-tech industries during these two important periods. Specifically, we analyze the employment and earnings patterns among high-tech firms for two years, 1984 and 1999. Both years represent periods of strong growth, when key high-tech industries were expanding rapidly. In addition, in both years, high-tech employment accounts for similar proportions of the state's jobs base. At this point, however, the similarities cease. The current composition of high-tech employment is dramatically different from the composition of high-tech employment during the 1980s. Moreover, we have observed substantial changes in the education requirements of high-tech employers, the racial and ethnic composition of their workforce, and weekly earnings.

We compare these two periods when high-tech industries were strong in California in order to ask if high-tech industries are a panacea for the California economy or if high-tech industries present special problems. In order to answer this question, we must first know:

- How important has employment in high-tech been for California's workers over the past fifteen years?
- What types of workers, in terms of education and skills, are hired and what are their earnings in high-tech industries? How well do different racial and ethnic groups do in high-tech industries?
- How do wages and employment in California's high-tech industries compare to other industries? What is the rate of unionization in high-tech industries compared to other industries?

I would like to thank Paula Williams, Phil Lowenthal and Shannon Barr for their research assistance for this chapter.

- To what extent are high-tech jobs driving the labor market in California, and what can we expect in the future?

The answers to these questions should help California policy-makers understand how high-tech industries affect the California labor market, for better or worse.

II. High-tech industries in 1984 and 1999

In order to compare California's high-tech industries in 1984 and 1999, we first identify the top ten high-tech industries in California, defined by the number of scientists, engineers, and technicians as well as the percent of workforce who are scientists, engineers, and technicians (called high-tech workers).[1] Based on this definition, the high-tech industries employed approximately one-in-nine California workers in both years. They also employed approximately 60 percent of all high-tech workers in California. While only 6 percent of all California workers were scientists, engineers, or technicians in 1999, 31 percent of the workers in the high-tech industries were high-tech workers. To analyze the characteristics and earnings of workers in high tech and other industries, we analyze California data for 1984 and 1999 from the Current Population Surveys published by the Bureau of Labor Statistics. For a description of our data sources, see appendix A.

Figure 1 presents employment levels for 1984 and 1999 for all industries that are among the top ten high-tech industries for either year. The industries are ordered in descending order according to the number of net new jobs added in the industry between 1984 and 1999. Although the sum of employment in these industries is comparable across the two time periods, the distribution of high-tech workers across industries changed substantially. In the mid-1980s defense-related industries (missiles, aircraft, national security, and electrical equipment) accounted for 60 percent of high-tech employment and computer equipment and services accounted for 20 percent. In late 1990s defense-related industries fell to 34 percent of high-tech employment, and computer equipment and services rose to 31 percent plus an additional 11 percent in the rapidly expanding telecommunications industry, which supports the Internet infrastructure. In addition the R&D and Engineering services industry grew from 10 percent of high-tech employment in 1984 to 19 percent in 1999 as it shifted from supporting defense-related industries to supporting Internet-related industries.

Overall we see that high-tech industries are equally important to the California labor market in the mid-1980s and the late 1990s, yet the industrial composition has shifted from being driven by defense-related industries to being much more reliant upon Internet-related industries. What implications does this shift in the driver of high-tech employment have for the types of workers hired and their earnings?

III. High-tech workers in 1984 and 1999

The education of California workers rose slightly from 1984 to 1999, and the education of workers in the top ten high-tech industries rose more rapidly than in the rest of the California economy. In 1984 high-tech industries hired only 9 percent of workers with a high school diploma or less, and this fell to 6 percent in 1999, when only one-in-five workers in high-tech industries did not go to college (see figure 2a). The importance of workers with college and advanced degrees in high-tech industries grew with the shift from defense- to Internet-related industries. The top ten high-tech industries increased their reliance on highly-educated workers as the percent of high-tech workers with college and advanced degrees rose from 40 percent in 1984 to 50 percent in 1999. The other industries continued to rely mainly on workers *without* college degrees as their percent of workers *with* college and advanced degrees remained slightly under 30 percent in 1984 and 1999 (see figure 2b). College-educated workers in high-tech industries were much more likely to be working with other college-educated workers than were their counterparts in other industries. Workers with a high school education (or less) in other industries remained over 40 percent of the workforce, and so were much more likely to work with other non-college goers that were their counterparts in the top ten high-tech industries.

If we look at ethnic breakdown of employment, we see in figure 3a that Hispanics were underrepresented in the top ten high-tech industries in 1984, and the disparity grew in 1999 when only 5 percent of Hispanics were employed in high-tech industries, which employ 11 percent of all California workers. Blacks were not underrepresented in the top ten in 1984, but they were underrepresented in 1999 when 9 percent of Blacks worked in high-tech industries. Asian workers were over represented in both periods with 17 percent working in high-tech industries. The importance of Asian workers to the top ten high-tech industries grew with the shift from defense- to Internet-related industries. In the mid-1980s Asians were 12 percent of high-tech industries workers, and in the late-1990s, they were 21 percent. Since the population of California became more Hispanic and Asian during this period, we see that the proportion of Hispanics in other industries almost doubled from 16 percent to 30 percent, while the Asian proportion grew from 8 percent to 12 percent (see figure 3b). As the population of California became less white (non-Hispanic) during this period, the percent of white workers in other industries fell from 69 percent to 52 percent, while the percent in high-tech industries remained 12 percent. These data show that as the Hispanic population of California grew, the additional workforce found jobs in other industries and not in high-tech industries, and partly this reflects the high education requirements of the high-tech sector.

The top ten high-tech industries have unionization rates that are much lower than unionization rates for workers employed in other industries, especially for workers with college and advanced degrees. Workers with only a high school degree (or less) had the highest representation rate among high-tech employees in 1984, with one in five of them represented (see figure 4a). Only 15 percent of high-tech employees with some college were represented in 1984. Unionization rates are even lower for workers with Bachelors degrees (7 percent) and workers with advanced degrees (3 percent). The unionization rate for workers in other industries was considerably higher in 1984, with approximately one-in-four workers being represented across all educational groups (see figure 4b).

In 1999, union representation of workers with less than a college degree has become more comparable between high-tech and other industries. However, the disparity in union representation among workers with college and advanced degrees has grown. Overall the unionization rate of 7 percent for high-tech industries was only a fraction of the 19 percent rate for other industries. While much of this difference among highly-educated workers is accounted for by high unionization rates among teachers, unionization rates excluding teachers are still higher among more educated workers outside of the high-tech industries.

Unionization rates for high tech workers with a high school degree (or less) nearly equals the representation rate for high-tech employees without some college (13 percent). The rate of representation of workers with high school degrees (or less) in other industries fell much more than the rate for those with some college, while the representation rate for workers with college and advanced degrees in other industries rose slightly between 1984 and 1999. The disparity in unionization between top ten high-tech industries and other industries in California today is especially noticeable among the highest educated workers, while the unionization rate among the least educated workers has become equal in high-tech and other industries. However since the proportion of workers without a college degree in high-tech industries is less than one-half, the decline in representation rates of workers with college and advanced degrees is especially noticeable.

Overall we see that as the top ten high-tech industries have shifted from a focus on defense to the Internet, the workforce has become relatively more educated, more white and Asian, and less unionized compared to other industries in California. Now let us ask how wages in high-tech industries have changed by education since 1984 compared to other industries, and how this has affected wages by ethnicity and union status.

Over the past two decades, wage growth in both California and the nation as a whole followed dramatically different paths depending upon whether one looks at the high end or the low end of the wage distribution. Real median earnings (the earnings level at which half the workforce earns less and half earns more) stagnated through much of the 1980s and 1990s for both California and the nation. Earnings of workers in the bottom half of the wage distribution actually fell after adjusting for inflation. Meanwhile, earnings for workers in the upper half of the distribution grew in real terms. The difference in

earnings between workers with high and low education and between younger and older workers grew. Moreover, research by Reed et al. (1996) indicates that this widening of the earnings distribution was much greater in California than elsewhere in the nation.

Growth in high-tech employment and changes in the composition of high-tech employment can either aggravate or partially assuage these trends. To the extent that high-tech employers provide relatively high paying employment opportunities for some low-skilled workers, the erosion of earnings observed during much of the 1980s and 1990s may be partially counterbalanced. Alternatively, if high-tech provides employment opportunities for the relatively educated only (and at levels of pay that exceed compensation that such workers would receive from other employers), growth in high-tech employment may further aggravate the gap between California's haves and have-nots.

In this section, we analyze the relative earnings trends between 1984 and 1999 for workers employed in the high-tech sector compared to workers employed in other firms. This analysis will provide information that can be used to assess how employment in high tech is affecting the state's wage structure.

Table 1 presents estimates of the median earnings in 1984 and 1999 for California workers in top ten high-tech employment and other employment. The first three columns present information for high-tech employment, while the second three columns present information for other employment. For both sets of workers, we first present median earnings for all workers and by education for 1984. We next present comparable figures for 1999. Finally, we present the change in median earnings between 1984 and 1999. All of the figures are adjusted for inflation (constant 1999 dollars).

Across all education levels, high-tech workers earn substantially more than other workers. The median high-tech earnings in 1984 of $753 exceed median earnings of other employers by $176 (a 31 percent earnings premium). By 1994, this difference in real earnings increases to $350.

If we compare only workers with similar education, we still observe earnings premiums for working at high-tech employers. For example, workers with a high school degree or less employed at high-tech firms in 1984 earn $61 more (or 12 percent) per week than workers at other firms. By 1999, this earnings premium increased to $179 (or 48 percent more). Hence, these comparisons indicate that workers of all education levels earn substantial premiums by working for high-tech employers. Moreover, the figures in table 1 indicate that these premiums widened over the past 15 years.

Looking at the figures in the first three columns, we see that median weekly earnings have increased in real terms for high-tech workers overall, and for high-tech workers in each education category. Overall, median weekly earnings increased by $146 from 1984 to 1999. The largest increases were realized by workers with advanced degrees ($264), while the smallest increases were realized by workers with a high school education or less ($17). In contrast, median earnings declined overall in real terms for workers in other industries by approximately $27. This earnings decrease, however, was not constant across education categories. The least educated workers experienced the largest real wage decline, while the workers with the most education experienced increases in their real wages.

Let us look at the relative advantage of being employed in a high-tech industry by computing the change in median earnings for high-tech workers relative to the change for other workers. (See final column, which subtracts the change in earnings for other workers from the comparable change in earnings for high-tech workers). All high-tech workers gained relative to other workers with similar education, and the earnings gains for high-tech workers were greatest for the least educated workers. Specifically, for workers with a high school degree or less, earnings in high-tech increased by $173 relative to workers in other employment. For workers with advanced degrees, high-tech workers experienced a relative increase in earnings of $89.

To assess whether high-tech employment contributes to, or lessens, earnings inequality, Figure 5 plots 1999 earnings at the ninetieth percentile, the fiftieth percentile, and the tenth percentile for workers in high-tech and other industry by education. Several patterns stand out. Overall earnings inequality (as measured by the difference in earnings at the ninetieth and tenth percentiles) looks similar for high-tech employment and other employment. Within educational categories, however, there are a few notable differences. Among workers with high school degrees or less, earnings inequality is much greater among

high-tech workers, while the reverse is true for workers with Bachelors degrees and advanced degrees. This latter finding, however, should be tempered by the fact the Bureau of Labor Statistics top-codes earnings for high earnings workers in order to preserve confidentiality.[2]

To assess changes in inequality, table 2 presents the ratio of earnings at the ninetieth percentile to earnings at the tenth percentile (higher ratios indicate greater inequality) for workers in high-tech and other employment by year and education. Here we see some striking patterns. Overall, earnings inequality increased less in top ten high-tech industries (from 3.99 to 4.16, a change of 0.17) than in the other industries (from 4.24 to 5.21, a change of 0.97). Within educational categories, however, earnings inequality among workers in high-tech industries increased relative to earnings inequality among workers in other industries. These conflicting patterns indicate that the wage distributions of workers of different education levels in other industries overlapped less and pulled further apart between 1984 and 1999.

The pattern for high-tech workers was considerably different. The slight increases in overall inequality coincided with larger increases in inequality among workers of similar education. These patterns indicate more overlap of the wage distributions of low- and high-educated workers in 1999 relative to 1984, accompanied by slight increases in earnings inequality within an education category.

IV. Conclusion

This chapter asks if high-tech industries are a panacea for the California economy or if high-tech industries present special problems. The answer is both. The high-tech industries in the late 1990s have created jobs with higher wages and less overall inequality than the other industries in California. However high-tech industries employ only a small proportion of California workers, and over one-half of their workers have college and advanced degrees. For California workers, high-tech industries present both good news and bad news.

The good news is that high-tech jobs pay more. This fact is true for both workers with advanced degrees and high school dropouts. Wage premiums for working at a high-tech employer are nothing new. In fact, our findings indicate that there were substantial earnings premiums between high-tech and other California workers in 1984. The premiums grew during the intervening 15 years.

Overall, earnings inequality is less among top ten high-tech workers than among workers in other industries. This was true in 1984 and is true today. Within education categories, however, we observe greater inequality in the high-tech sector. These patterns indicate a greater degree of overlap between the earnings distributions of low-skilled and high-skilled workers in high-tech industries than is observed in other industries. A decrease in overall inequality may also be attributed to a shift in the underlying skill distribution of the workforce. The high-tech industries employ a relatively more homogeneous and higher educated workforce which leads to a compression of the wage distribution.

The bad news is that the top ten high-tech industries hire fewer than 11 percent of California workers, and only 6 percent of California workers are scientists, engineers or technicians. Furthermore high-tech industries do not create many jobs for workers with no college: only 20 percent of workers in high-tech industries have a high school degree (or less), while 50 percent of them have college and advanced degrees. Blacks and Latinos are relatively under-represented at high-tech jobs. The top ten high-tech industries have a very low unionization rate (7 percent in 1999), and representation of workers with college and advanced degrees is almost nonexistent (2.5 percent). As high-tech industries shifted from being defense-related to being Internet-related, the trends toward high educational requirements, under-representation of blacks and Hispanics, and low unionization rates accelerated.

So even though high-tech industries create "good" jobs and serve as an engine of economic growth, California cannot depend upon high-tech industries to create large numbers of jobs, especially for workers with no college. Workers who are lucky enough to land a job in a high-tech industry will earn a substantially higher income than their counterparts who are excluded from the high-tech industries, and workers with only a high school degree will benefit the most. However California must depend on other industries to provide eight-out-of-nine jobs. For this reason policy-makers must focus on what is happening outside the high-tech sector, where real wages for non-college goers have declined and wage inequality has increased.

Figure 1: Total Employment in Specific High Tech Industries, 1984 and 1999

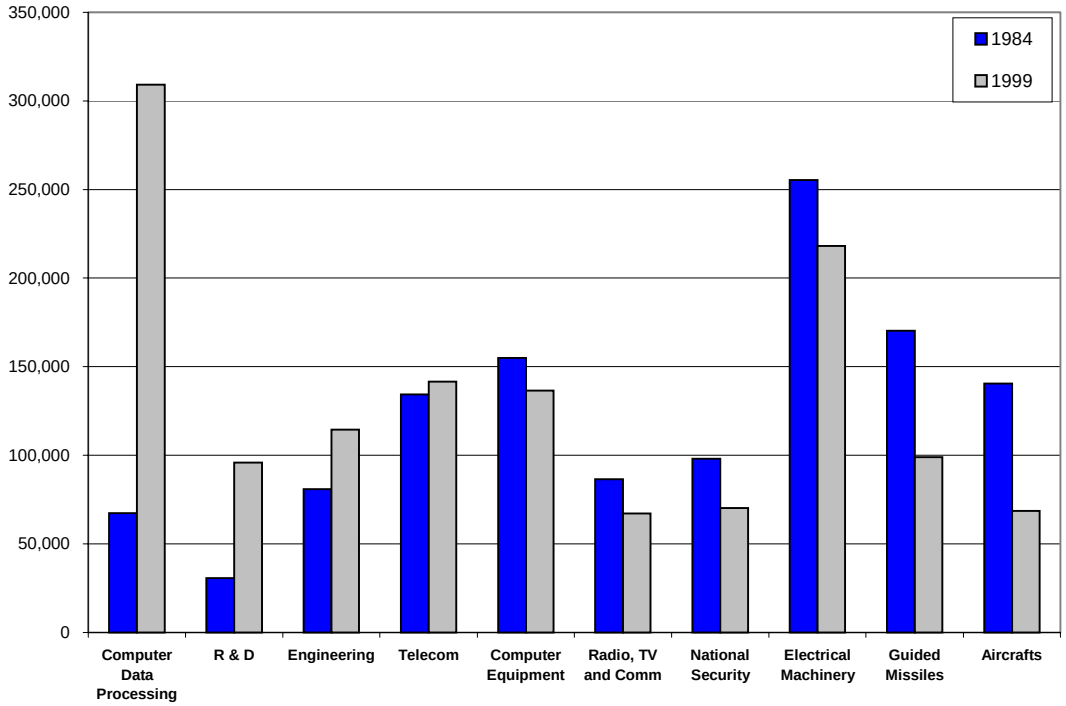


Figure 2A: Percent of Education Group Employed in High Tech Industries, 1984 and 1999

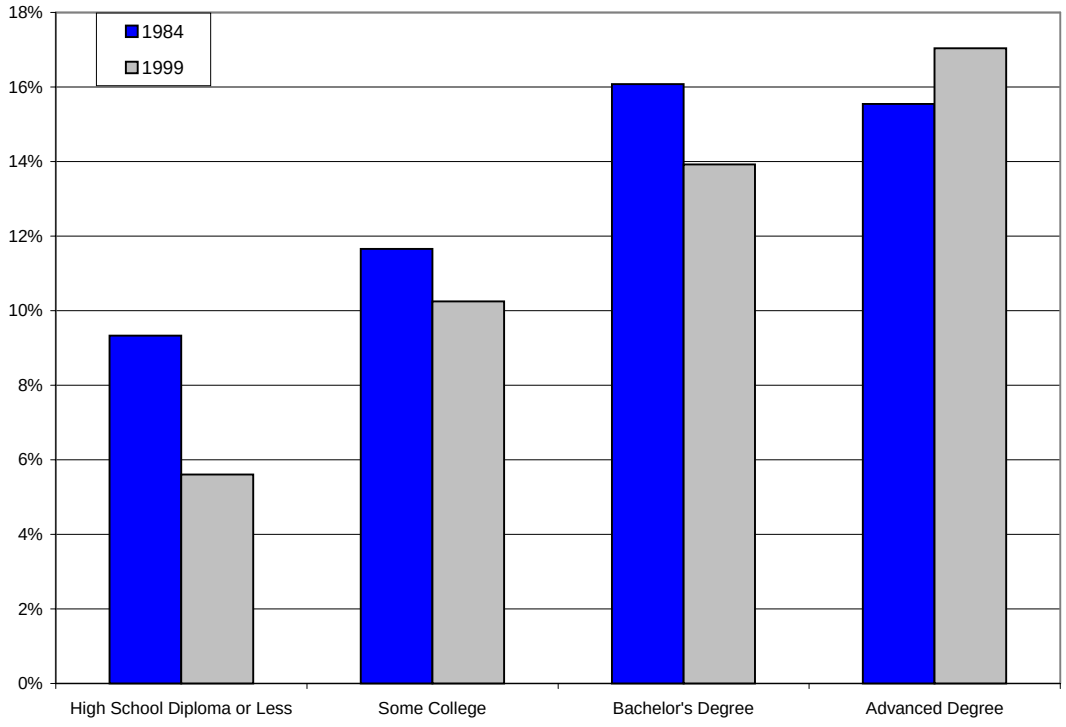


Figure 2B: Distribution of Employment in High Tech Industries by the Education of Employees, 1984 and 1999

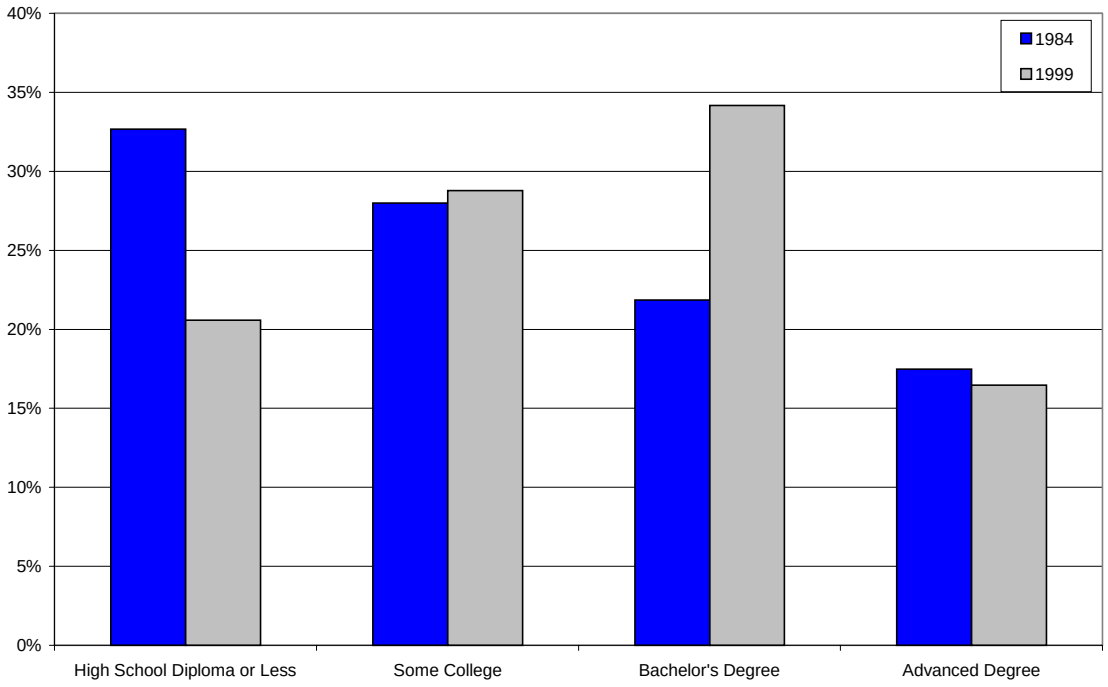


Figure 3A: Percent of Racial/Ethnic Group Employed in HighTech Industries, 1984 and 1999

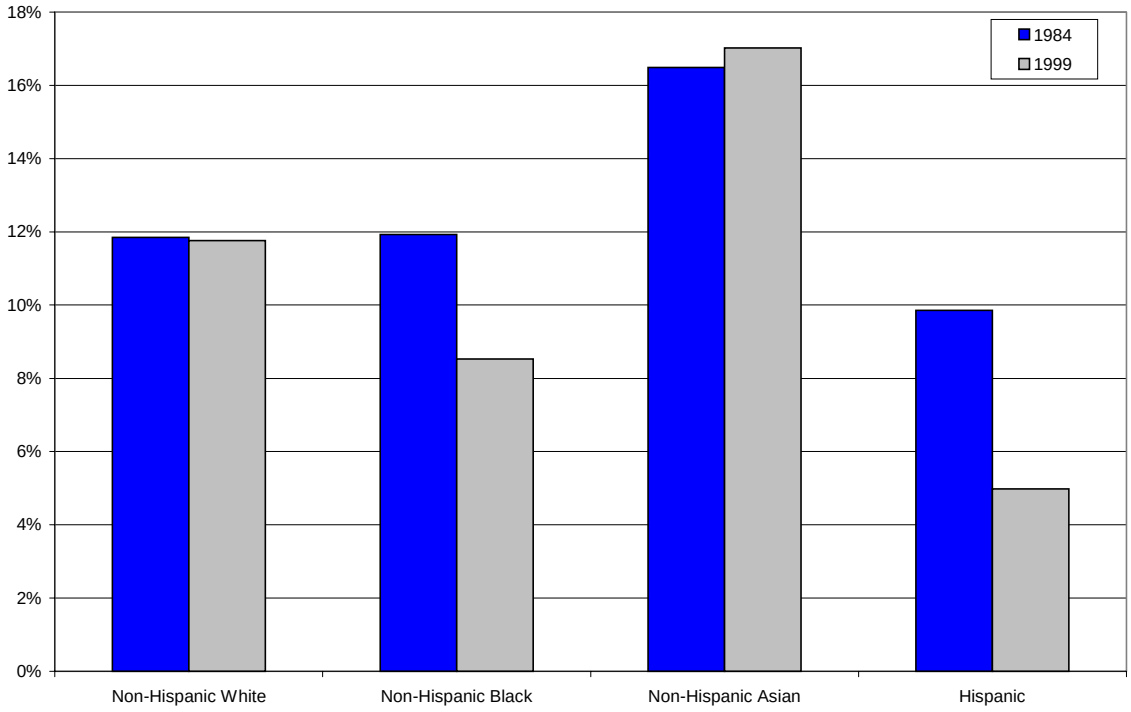


Figure 3B: Distribution of Employment in High Tech Industries by Racial/Ethnic Group, 1984 and 1999

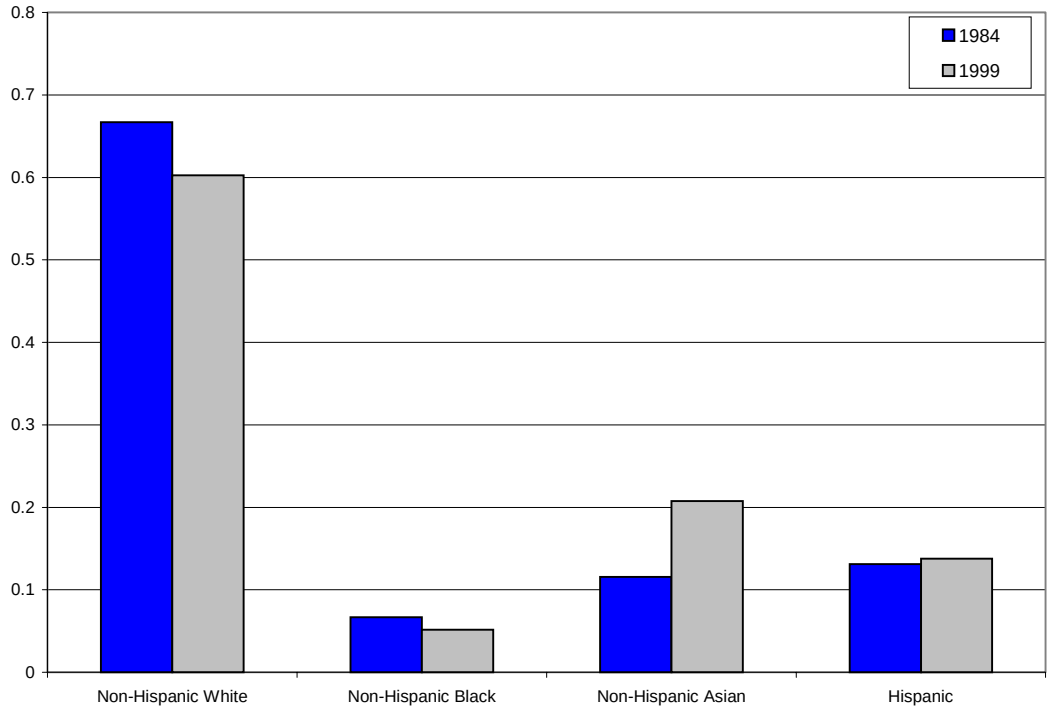


Figure 4A: Percent Unionized Workers in High-Tech Industries by Educational Attainment, 1984 and 1999

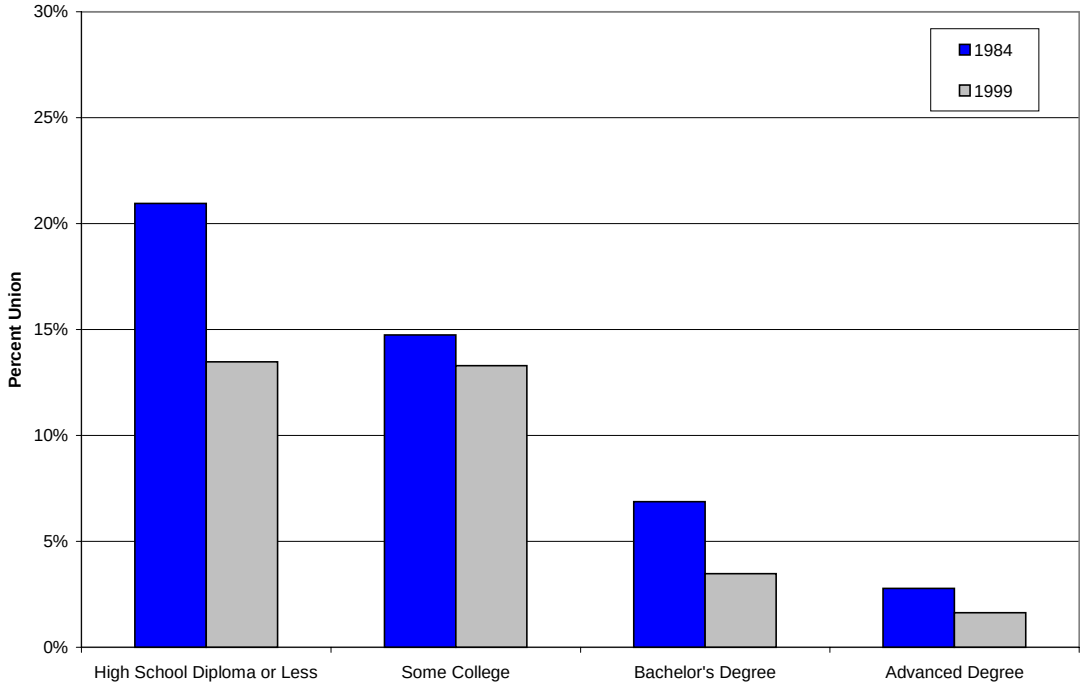


Figure 4B: Percent Unionized Workers in Non-High-Tech Industries by Educational Attainment, 1984 and 1999

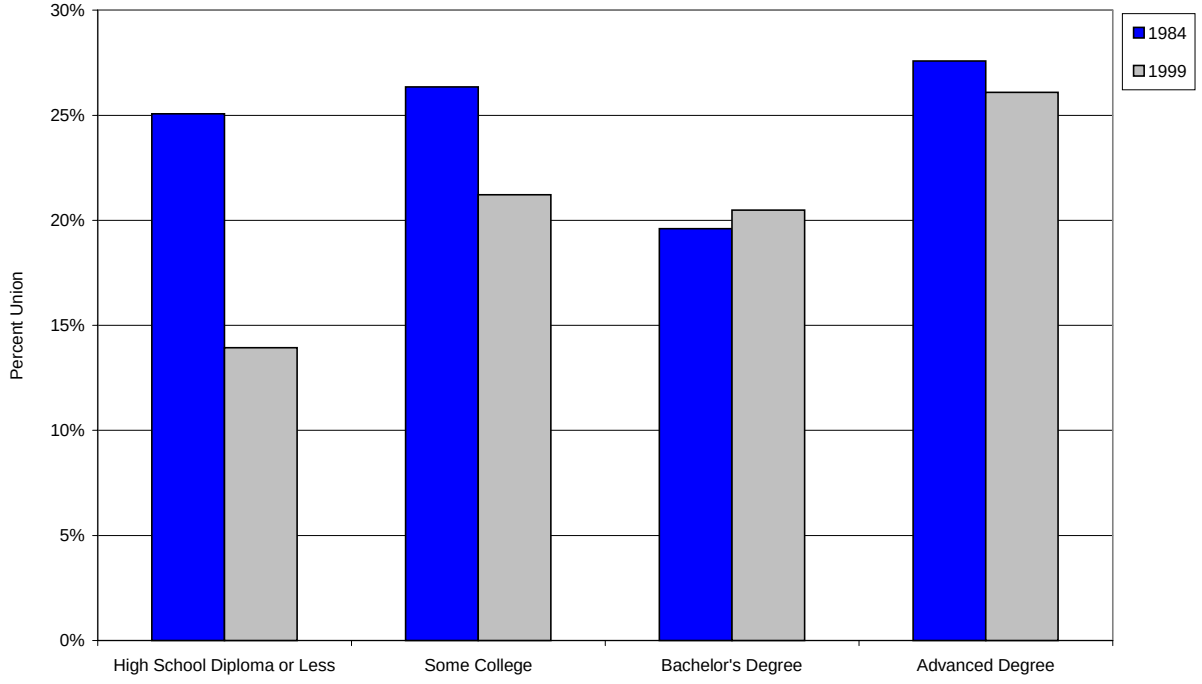
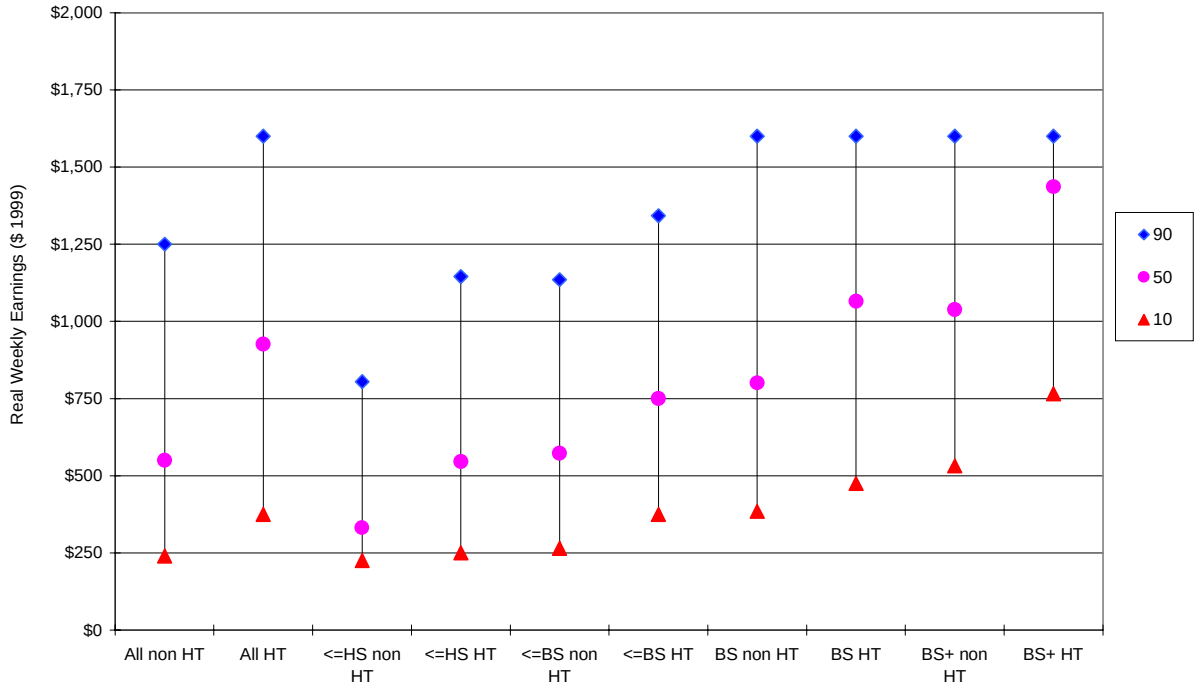


Figure 5: Wage Distribution in High Tech Industries in 1999



Endnotes

[1] We select the top ten employers of scientists, engineers, and technicians whose workforce is composed of more than three times the state average of percent high-tech workers for all industries, which is 5-6 percent. The construction industry employs the largest number of scientists, engineers, and technicians of any industry, but only 3-4 percent of the workers are high-tech. Colleges and universities also employ large numbers of scientists and engineers (1999), but only 10 percent of its employees are high-tech.

[2] We should also note that to compare the 1984 and 1999 samples, we impose the 1984 top-code (in 1999 dollars) on the 1999 sample. While this does not affect our estimates of median earnings, this reduces the variation in earnings among higher-wage workers in 1999.

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CHAPTER 8

TRAINING AND WORK-ORGANIZATION PRACTICES OF CALIFORNIA'S PRIVATE EMPLOYERS

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This chapter rests on the premise that the skills of California's workforce are the key to the state's competitiveness in the global economy. A well-educated and well-trained workforce raises the state's productivity and wages, and creates new jobs by making California an attractive place for employers to invest.

Government has a role to play in educating and training, but it is necessary to find ways to leverage limited tax dollars in an era of fiscal stringency. Using public funds to encourage private-sector training is one way to achieve such leveraging. Employer-provided training is uniquely important; it is not a substitute for training investments by individuals or by public institutions. That's because employers are best at providing skills that are idiosyncratic to a given firm and are most likely to invest in training that will immediately be used. Studies have consistently found that employer-provided training offers a higher economic return than training purchased by workers on their own. As for basic skills training, while it is intrinsically important, its payoff is enhanced when combined with employer-provided training.

Unfortunately, the United States lags other nations in the hours and money per workers spent on employer-provided training (Lynch 1994; MacDuffie and Kochan 1995). In the last few years, several major EPT surveys have been conducted at the national level by federal agencies and private researchers (EQW 1995; Osterman 1995; Frazis et al. 1995). The surveys are a useful overview of what is happening nationwide. But they provide little information about California because they lack geographic controls and, as a result, it is not possible to analyze the extent to which California employers behave differently from those in the rest of the United States. If there were nothing unusual about California, this would not matter. But California is different. It is larger than any other state; its growth sectors have a distinctive profile; its public education system is the target of frequent criticism; and its workforce is especially diverse.

Despite the many benefits of employer-provided training to California, we do not know a great deal about its determinants. There are few California-specific data on who does and does not train, what types of training are occurring, and what determines training types and intensity. This study is a first attempt to develop such comparative California-U.S. data, and we use the data to address the following:

1. What is the extent of employer-provided training (EPT) in California?

Acknowledgments

We wish to thank Richard Copeland, Peter Goldschmidt, and Jonathan Troper for valuable research assistance. We also thank Ken Budman, Sophie Flaherty, Tom Stassi, and many other helpful individuals at the State of California's Employment Development Department. We also thank Michael Horrigan (U.S. Bureau of Labor Statistics), Lisa Lynch (EQW Project and Tufts University), and Paul Osterman (MIT) for sharing their unpublished data. Pat Kracow of the Institute of Industrial Relations ably administered our grant. We are also grateful to four anonymous reviewers whose comments improved the quality of our work. Please see the California Policy Seminar report "Training and Work-Organization Practices of Private Employers in California" for a more detailed summary of the results we report here.

2. Are EPT levels in California of the same magnitude as those in other parts of the United States?
3. What drives EPT? How is it related to firm size and industry, human resource policies, high performance work practices, employer involvement with schools, perceived skill trends, and other factors?

To answer these questions, we surveyed a sample of the state's private-sector, non-agricultural establishments. We conducted our survey in cooperation with the state's Employment Development Department (EDD), which provided crucial assistance in distributing and tabulating our survey instrument.

For purposes of administering the nation's unemployment insurance system, EDD collects data on wages and employment from each of the state's business establishments. With the cooperation of EDD, we surveyed a representative sample of those establishments and merged our questionnaire data with existing EDD data on employment at responding establishments. For reasons of comparability and interpretability, our survey excluded establishments employing fewer than 20 individuals, as well as establishments in the government and agriculture sectors. We conducted two rounds of surveys, in December 1996 and April 1997; our response rate was 10 percent and the two rounds of surveys provided us with 977 usable responses, representing approximately 1 percent of California's nonagricultural, private establishments employing over 20 individuals. In our analyses of the data, we assign appropriate weights to ensure representativeness along the dimensions of size class and (1-digit SIC) industry.

In designing our survey, we replicated a number of questions that had been asked in previous (national) surveys, thus allowing us to "benchmark" California's employers and to identify areas where improvement might be possible. We added many additional questions, especially related to employer external involvement with schools and other groups.

Incidence of Employer Training and Advanced Work Practices

Our survey utilized recently developed training indices (from the U.S. Bureau of Labor Statistics), from which we determined the distribution, intensity, and correlates of the principal types of formal employer training: basic-skills training, workplace-skills training, and job-skills training. Although employers do rely on informal on-the-job training, which is often a key feature of new "learning organizations," this informal training is frequently insufficient to learn job skills, as studies of Japanese organizations have shown. That is, informal and formal learning can be complements as well as substitutes. In fact, we found that organizations that utilized on-the-job training as a substitute for formal training were smaller, older, establishments that were less likely to report rising skill requirements.

Two-thirds of California's "small" establishments (those employing 20 to 50 employees) offer some type of formal training to employees; this rises to almost 90 percent for "large" establishments (those employing over 250 employees), which is consistent with national studies showing that formal training is more prevalent in larger establishments. But, our data also show that California establishments are less likely to provide formal training than their national counterparts. This is one of our main findings.

<u>Basic Skills Training</u>

This includes training in such basic skills as reading, writing, arithmetic, and English language. Relatively few establishments in either California or the nation provide basic-skills training. For establishments with over 250 employees, the proportion offering this training was 19 percent nationally and 13 percent in California; for establishments with 50-249 employees, the proportion offering this training was 7 percent both nationally and in California (figure 1). Despite periodic employer complaints about workforce quality, 84 percent of the California employers not offering basic-skills training said that they thought their employees had adequate basic skills. On the other hand, California employers were more likely than national employers to cite the cost of providing basic skills as an inhibitory barrier.

We think there is a split within the employer community on this issue. Some employers are satisfied with basic skills either because schools are doing an adequate job and/or because job skill demands are rather minimal. (Keep in mind that many of the largest growth occupations in California do not require a high-school education.). Other employers, however, are those who *do* provide basic skills training or those who would provide it if the cost were not so high; this group represents 19 percent of California establishments (6 percent who do provide it and 13 percent who would provide it if the cost were lower). In short, many California employers see no need for basic skills training, but about a fifth feel differently.

Workplace-Related Skills (WRS) Training

This formal training includes skills to improve employees' awareness (e.g., of sexual harassment or workplace diversity); communications skills such as speaking and writing; how to work in teams or groups; and how to improve overall work performance (e.g., problem-solving). In California and the nation, WRS training, which is primarily behavioral and attitudinal, is more prevalent in larger than in smaller establishments (figure 2). The most common type of WRS training-to improve employees' awareness of such things as sexual harassment and workplace diversity-is provided by 37 percent of small establishments (20 to 50 employees) but 65 percent of large establishments (over 250 employees). WRS training is also associated with the existence of a high-performance approach to work organization.

Job Skills Training

This training upgrades or extends employee skills or qualifies workers for a job in areas such as management and supervisory skills; professional and technical skills; computer skills; food, cleaning, and personal service skills; and production skills. Of the various types of formal training, JS training is most directly linked to occupationally specific skills and is more easily transformable into improved productivity and earnings.

As would be expected, large California establishments offer more JS training than smaller establishments. Also, the bulk of training is directed towards white-collar employees, especially managers and supervisors, rather than to blue-collar, manual workers.

The good news is that for mid-sized establishments (those employing between 50 and 249 persons), California consistently leads the nation in computer skills training (figure 3). The bad but important news is this: Larger establishments (those employing over 250 persons) lag the national average in all five categories of JS training. The gap is widest for training in production skills, a category that includes operation and repair of machinery or equipment, manufacturing, assembly, distribution, installation, and inspection (figure 4). Large California establishments also are less likely to provide training to upper-tier managerial, supervisory, professional, and technical employees. Even in computer training, where the state's mid-sized establishments lead the nation, large California establishments trail, albeit by a small amount.

Within California, employers are twice as likely to conduct training programs themselves than hire outsiders to do it. When outsiders are hired, the preferred training provider is a private consultant. Equipment suppliers or vendors are another popular source of trainers. On the other hand, California employers do not rely on the public sector for trainers. Less than 10 percent of establishments in any size class use government-funded training programs; even community and junior colleges are utilized by only 12 percent of all establishments.

High Performance Work Practices

In addition to training, we paid close attention to the incidence and determinants of "high performance work practices" (HPWP). HPWP constitutes a new approach to work organization, one that is focused on quality, flexibility, and employee involvement. It emerged in the 1970s and has steadily diffused throughout the U.S. economy. HPWP is an umbrella that encompasses total quality management, self-managed teams, job rotation, cross-training, and various other activities. Previous research has shown that such practices are associated with high levels of productivity (MacDuffie 1995). Another reason for our

interest in HPWP is that organizations that are leaders in HPWP have been found to spend more on EPT. Hence for policy purposes, encouraging HPWP could be an indirect way of encouraging EPT.

We know from previous research that some California employers are among the nation's leading HPWP companies. What we did not know prior to our survey was whether these companies were the tip of an iceberg or simply islands of innovation in a sea of traditional work organization practices.

Our first finding is that, as with formal training, HPWP is somewhat more prevalent in large as opposed to small establishments in California, which is also true nationally. Second (and this is good news), California establishments tend to be leaders in the usage of HPWP, especially in areas such as holding regular meetings with employees to discuss work-related problems and relying on self-directed work teams. However, we also found that new forms of work organization are NOT sweeping the private sector in California. Both our study and national surveys found that fewer than a quarter of establishments utilized quality circles, statistical process control, pay-for-knowledge, job rotation, or peer review. And the percentage of the workforce affected by these practices is smaller than the percentage of establishments utilizing them, in part because companies restrict these practices to frontline employees or to employees in critical work units. Thus, only 13 percent of employees in mid- to large-sized establishments are involved in self-directed teams.

Workforce Quality, Schools, and Skills

Our survey examined how California employers perceive skill trends and issues of workforce and school quality. These perceptions influence EPT decisions, since employers are more likely to invest in a workforce that is, or is thought to be, able and educated. We also looked at employer involvement with educational institutions. To the extent employer involvement raises the return on private training, it should lead to higher levels of EPT.

Skill Trends

We asked employers the following question: "During the past three years, have the skills required to perform front-line production and service jobs at an acceptable level in your establishment increased, decreased, or remained about the same?" The results are interesting. First, California employers of all size categories are less likely than their national counterparts to report that skill requirements are rising (figure 5); correspondingly, they are more likely to say that skill requirements are remaining the same or even falling. In fact, while a majority of national employers in every size class felt that skill requirements were rising, in California the majority of small- to-medium-sized establishments (49-249) felt that skill requirements are stable or declining.

We are not sure why California employers are less likely than national employers to perceive rising skill requirements in the workplace. It may be related to the relative strength in California of factors that inhibit investment in new technology, such as: high rates of in-migration, lingering effects of the last recession, or an employer perception that workforce quality is mediocre. More research is needed on this important issue.

Interaction with Schools

In every size group, California employers are less involved with schools than their national counterparts. The discrepancy is smallest for passive types of involvement, such as providing funds or equipment to educational institutions. But when it comes to involvement requiring more active contact such as participating on educational advisory boards, internship programs, adopt-a-school arrangements, California employers are less involved than their national counterparts. One of many possible explanations for this lack of involvement is that California employers lack confidence in the state's schools.

To analyze this issue, we asked employers to rank from 1 to 5 (with 5 being most important) the factors they consider when hiring a new nonsupervisory or production worker (table 1). The California rankings are similar to the national rankings: Employers place a great deal of importance on an applicant's

attitude, on previous work experience, and on communications skills. At the bottom of the rankings, both in California and nationally, are factors related to schools: teacher recommendations, the reputation of the applicant's school, and the applicant's academic performance. Interestingly, California employers assigned a lower value to these school-related factors than national employers. For example, 12 percent of national establishments employing over 250 workers said that school reputation was very important; in California the corresponding figure was only 4 percent.

We also have data on how satisfied employers were with the knowledge and skill possessed by recent graduates of California's school and colleges. When asked to rate different types of schools on a scale of 1 to 5, where 1 is very satisfied, employers were least satisfied with high school graduates (2.96), followed by vocational and technical institutions (2.62), junior or community colleges (2.38), and four-year college or university graduates (2.15). In other words, satisfaction increases with a graduate's education level; these findings were consistent across establishment sizes. Unfortunately, we do not have comparable national data. But we do know that those employers who were more involved with schools were also more satisfied with high school graduates, and that employers who were more involved with schools also were more inclined to rely on school-related criteria when making hiring decisions.

Of course, all of these findings concern relationship, not causality. We do not know if employers in California are less involved with schools because they have less confidence in them (as reflected in hiring criteria, which in turn are related to school satisfaction) or have less confidence in schools because they are not involved with them. Probably both are true, but we cannot establish this definitively. What is apparent is that low involvement with and confidence in, the state’s schools and their graduates, especially at the K-12 levels, is related to lower workplace requirements, lower levels of job-skills training, and higher perceived cost of providing training in California.

Multivariate Analysis

In order to get a sense of which types of employers are likely to adopt different types of training and employment practices, and also to see which practices tend to "go together" or tend to be used in bundles by employers, we performed multivariate analyses on our survey responses. Previous researchers have found that "bundles" of certain human resource practices (such as the use of internal labor markets, employment security, recruitment and training policies) tend to be used in conjunction with "bundles" of certain high-performance work practices (such as the use of teams, quality circles, incentive pay, and flexible job assignments), and that these HR and work practices tend to have a combined "synergistic" effect on productivity (MacDuffie 1995; Lynch and Black 1995; Ichniowski et al. 1997; Frazis et al. 2000). Our findings point to similar "bundling" of practices, and we assume that this bundling results from employers' desire to achieve such productivity gains.

We also attempt to extend these existing studies by including measures of "external orientation" of employers. Previous studies of training have focused on internal variables - characteristics of the enterprise and its management policies. Bundling, for example, looks at the interaction between personnel policies and work organization policies. A key question is why, all other things being equal, some employers engage in such practices as bundling or advanced human resource management policies? We think that part of the answer lies in conceiving of the enterprise as being embedded in a social network that provides employers with information about "best practice," about ways to raise productivity and perhaps provides some normative guidance about what "good" employers ought to do.

Also, by sharing their energy and ideas with other employers and with public institutions like the schools, employers create "social capital," a pool of information and institutions that can benefit everyone in the city, region, or industry (depending on the specific structure of the networks). This social capital is a public good and one that requires some commitment (and possibly social pressure) to prevent the free rider problem. Finally, while consultants have often been the butt of bad jokes or castigated for their faddishness,

in a decentralized work organization system like ours (in which government and industry associations are relatively weak), consultants can play a key information-diffusion role about best practices (see Jacoby and Erickson 2000 for further elaboration of these arguments). Therefore, as we describe in more detail below, we include measures of external orientation involvement with management networks, use of consultants, and interaction with schools in our analyses.

We report here summary results from statistical analyses of the probability of observing the use of basic skills training and the different types of workplace-skills and job-skills training (table 2) and on the probability of observing different types of high-performance work practices (table 3), as well as analyses of training intensity (table 4). These results, while they do not allow us to definitively establish causality, nevertheless give us a better sense of the circumstances under and the extent to which employers choose to adopt the various training and high-performance practices.

Table 2 presents the variables of interest which significantly influence the choice of different types of training. The table lists along the left-hand side various types of formal training about which we queried employers.

The first type of training we analyze is basic skills training. This includes training in such basic skills as reading, writing, arithmetic, and the English language. With respect to control variables (relative to the excluded category of professional and related services), basic skills training is significantly less likely to be provided in agriculture, mining, and construction; nondurable manufacturing; transportation and communications; finance, insurance, and real estate; and business and personal services. The larger the share of clerical workers, the less likely basic skills training was provided, and the larger the shares of customer service/sales workers and production, construction, and maintenance workers, the more likely that basic skills training was provided. Contrary to the impression created by previous studies that establishment size is critical, there was no significant effect of establishment size; however, those establishments that were part of a multi-establishment unit were more likely to provide such training.

Under "workplace skills," we separately analyze the following types of training: "Awareness" refers to training on skills to improve employees' awareness on such issues as sexual harassment and workplace diversity. "Teams or Groups" refers to training on how to work in teams or groups, such as group problem solving and learning multiple jobs. "Overall Performance" refers to training on how to improve overall work performance, such as problem-solving, leadership, and quality improvement. "Communication Skills" refers to training in such skills as public speaking and professional writing.

Under "job skills training," we separately analyze the following types of training: "Management/Supervisory" refers to training on management and supervisory skills, such as knowledge of employment practices. "Professional/Technical" refers to training on professional skills such as business and engineering and technical skills such as drafting, electronics, and medical technology. "Computer" refers to training on computer skills such as word processing, computer-aided design, spreadsheets, desktop publishing, accounting packages, and customized software. "Office, Clerical, Sales, Cust. Svc" refers to training on office, clerical, sales, and customer service skills, such as sales techniques, information about product lines, record keeping, scheduling, budgets, typing, business writing, and filing. "Food, Cleaning, Personal Svc" refers to training on food, cleaning, protective or personal service skills, such as food preparation, security, childcare, and tailoring. "Production" refers to training on production skills, such as operation and repair of machinery or equipment, manufacturing, assembly, distribution, installation, and inspection.

With respect to control variables, we found that job skills training was less likely the larger the share of customer service/sales workers (although this group is more likely to receive basic skills training). Interestingly, there was no statistically significant pattern for industries or establishment sizes, although, as with basic skills training, job skills training was more prevalent in establishments that were part of a multi-unit enterprise.

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Other than the control variables (i.e., size, industry, etc.), the first explanatory variable of interest is the number of high-performance work practices used by an employer. These practices will be described in more detail in our discussion of table 3, below; the variable used here is a simple count of the number of these practices in use. The table indicates that the more high-performance work system practices used by an employer, the more likely they will also provide basic skills training, some type of workplace skills training, training on employee awareness, teamwork, overall performance, communication skills, and management/supervisory skills.

The second explanatory variable of interest is the percentage of non-supervisory employees involved in self-directed teams. We view this as a measure of the intensity of use of this particularly important high-performance work practice. The larger the share of workers involved in workplace teams, the more likely that the employer also provides training on teamwork; overall performance; office, clerical, sales, or customer service; and production skills.

The next explanatory variable of interest is the number of benefits programs used by the employer. These programs include pension plans, employee assistance programs, family/parental leave plans, internal promotion plans, paid vacation plans, profit sharing plans, employee wellness programs, and severance pay plans; together, they indicate the extent to which an employer is "progressive" in using internal labor markets. The more benefits programs provided by the employer, the more likely that some training is provided on employee awareness; overall performance; some type of job skills training; management/supervisory skills; professional/technical skills; computer skills; office, clerical, sales, or customer service; and production skills.

The next explanatory variable of interest is whether or not a given employer perceived that skill requirements have increased. Those employers who perceived that skill requirements have increased were more likely to provide training on basic skills, some type of workplace skills, overall performance, some type of job skills training, and production skills.

Up to this point, our findings are broadly consistent with what other researchers have found. But, as noted above, we have also developed some variables related to an employer's external activities, based on our hypothesis that employers who participate in these activities are more likely to know about "best practice" with respect to training and work organization.

Our first "social" variable of interest is whether a given employer participates in employer or trade associations for the employer's industry, cross-industry associations, and/or private industry councils. We include this variable based on the hypothesis that networked employers are more likely to have information on "best practices" and human resource management innovations. The more involvement by management in networks, the more likely that employers provided training in basic skills, employee awareness, overall performance, some type of job skills training, and management/supervisory skills.

The next explanatory variable of interest is whether the employer uses private training and development consultants and/or quality management or reengineering consultants. Again, we hypothesize that these employers will have better access to information on innovative workplace practices. Employers who hired such consultants were more likely to provide training in basic skills and every single type of workplace and job skills training we measured.

A final explanatory variable of interest is the extent to which an employer is involved with local schools. This variable is measured as the sum of the following activities: participation on educational advisory boards, participation on private industry councils, provision of funds or equipment to educational institutions, internship programs with local schools, and adopt-a-school arrangements with local schools. The more an employer interacts with schools, the more likely that the employer also provides training on some type of workplace skills; employee awareness; teamwork; overall performance; some type of job skills

training; management/supervisory skills; professional/technical skills; computer skills; office, clerical, sales, or customer service; food, cleaning, or personal services; and production skills.

We want to stress again that these results are not necessarily causal from a policy-making point of view. Encouraging employers to use more consultants would not necessarily result in the adoption of training programs on overall performance; for example, there could be some other underlying causal factor driving employers both to voluntarily hire consultants and to provide overall performance training. However, this analysis does give us a sense as to which types of policies tend to go together, and perhaps gives us a sense of the overall type of workplace that policy-makers interested in seeing more training may wish to encourage. And, the table indicates strong results for most of these explanatory variables in explaining the likelihood of observing the different types of training. Particularly influential in increasing the likelihood of observing the largest number of different types of training programs are our measures of strength of internal labor markets (or number of benefits programs used by the employer), the use of private training and development consultants and/or quality management or re-engineering consultants, and our measure of interaction with schools. The use of high-performance work practices is associated with the provision of basic skills training and the various types of workplace skills training, but not with the provision of job-skills training except for management/supervisory training.

In other words, consistent with the findings of previous researchers, training tends to be associated with progressive human resource and work organization practices within the firm. But, we have also found that training is strongly associated with activities that take place outside of the firm, such as the use of management networks and consultants, as well as involvement with schools. We also want to stress that the table suggests that the various explanatory variables do tend to "go together" in explaining the use of the different types of training, and we would be cautious about recommending that policy-makers encourage only one, two, or some other subset of these determinants of training practices.

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Table 3 presents similar analyses for the use of various types of high- performance work practices. The work practices we analyze are self-directed work teams, total quality management, quality circles, cross-training (in skills for more than one job), compensation increase based on "pay for knowledge" system, regular meetings of non-supervisory employees to discuss work-related problems, job rotation, flextime, statistical process control, and peer review of employee performance. Because these high-performance work practices have previously been found to increase productivity, and are clearly related to training, we endeavor here to discover which types of employers are using these different types of practices, without attempting to establish causality between the use of training and the use of high-performance work practices. The analyses included, but we do not report the coefficients on, the same additional control variables used in the regressions in table 1: industry, size of the establishment, the age of the establishment, whether the establishment is part of a multi-establishment unit, union status, whether employment had increased or decreased in the past year, share of part-time workers, occupational shares, and share of production costs accounted for by labor costs.

The analysis yields several key findings. The more different types of workplace skills training (as defined above) provided by employers, the more likely that they also use self-directed work teams, TQM, quality circles, meetings of non-supervisory employees, job rotation, flextime, and peer review. The more benefits programs provided by the employer, the more likely that they also use quality circles, cross-training, and flextime programs. Recall from table 1 that this variable was also associated with the provision of the various types of job skills training in particular and deserves greater study. This suggests that, contrary to the new "employability" model, it may be the case that some amount of employment stability facilitates formal training and informal learning.

The analysis also shows that the employers who perceived that skill requirements have increased were more likely to use self-directed work teams, TQM, cross-training, meetings of non-supervisory employees, job

rotation, flextime, and peer review. The more involvement in management networks, the more likely that employers also used TQM and cross training, and the less likely that they used job rotation. Finally, employers who had a lot of interaction with schools also tended to use quality circles, cross-training, and peer review programs.

Seemingly counter-intuitively, the use of job skills training programs (as defined above) was negatively correlated with the use of peer review, and the use of consultants was not correlated with the use of any of these high-performance work systems. Another surprising result is that, contrary to the findings by Lynch and Black (1995) on national-level data, our analyses of both training use and intensity, as well as high-performance work practice use, did not find strong establishment-size effects.

Again, while not establishing causality, this analysis gives us a sense of the basic nature of high-performance workplaces in California, and hints (if not definitive answers) as to the types of practices policy-makers may wish to encourage. Our strongest findings here are that workplace skills training in particular tend to be provided by employers who also use a variety of different types of high-performance work practices, and that employer perceptions of increased skill requirements also tend to be associated with the use of many of the high-performance work practices.

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Finally, we performed statistical analyses on various measures of job training intensity; we report three such analyses in table 4. The three measures of job training intensity we analyze in table 4 are (1) the share of all workers who received training in production skills, (2) the average number of hours of formal job skills training per worker in the establishment, and (3) computer training intensity, defined as the average number of hours of computer training per worker. We note, however, that other measures of intensity, such as the share of all workers receiving computer training, yielded qualitatively similar results.

The table indicates that the share of workers receiving production training is strongly influenced by the number of high-performance work practices in use and the extent to which the employer is networked and interacts with schools.

Job training intensity is strongly influenced by the number of high-performance work practices in use; the extent to which teams are used in the workplace; the number of benefits programs in use; the extent to which the employer is networked, uses consultants, and interacts with schools; whether employment has increased or decreased in the past year; and whether the establishment is part of a multi-establishment unit.

Computer training intensity is strongly influenced by the extent to which teams are used in the workplace; the number of benefits programs in use; the extent to which the employer is networked, uses consultants, and interacts with schools; and whether employment has increased or decreased in the past year.

This table indicates once again that the use of high-performance work practices, teams, internal labor markets, management networks, and consultants, as well as interaction with local schools tend to be positively associated with the use and intensity of training.

The basic lesson we draw from these multivariate analyses is that California policy-makers should develop policies which encourage the various activities we have included in our analyses in order to help create high-productivity, training-intensive, and outward-looking (toward local schools, management networks, and consultants) workplaces. This might be accomplished by directly spreading information on the use and effectiveness of innovative human resource and work organization practices, and by encouraging employers to get more involved with schools and each other.

Conclusions: Policy Initiatives and Recommendations

Probably the strongest policy-relevant finding of this study is the discrepancy between California and the nation in the provision of formal skills training to employees. Recall that this type of training is most directly relevant to the formation of human capital that can immediately and productively be applied on the

job. Our research provides some ideas about what might be done to encourage California employers to offer more training and at higher levels of intensity.

Our research suggests that information plays an important role in stimulating training, all other things being equal. Employers who are "outward oriented" (being involved with schools, other employers, and external consultants), train more and at higher levels of intensity. Presumably, being part of these various networks provides employers with information on the advantages of training and the nature of "best practice" in their industry. This suggests an obvious role for public policy: to disseminate information to employers about the advantages of training. This could take the form of publicizing what the state's top training companies are doing, either through newsletters, films, or conferences; establishing a Baldridge-type competition for training awards, to be jointly administered by public-private bodies; and convening conferences that would offer employers a chance to share ideas. These conferences could be industry-specific, as that is the nature of existing employer networks.

The state could also initiate a program of systematic research on employer-provided training, showing what "works," that is, what types of training are proving most successful for the state's employers. This is analogous to the research done by various agricultural extension and other bodies.

There are also some more specific levers to encourage higher levels of training. For example, because high-performance work practices are associated with training and training intensity, provision of information to employers about the advantages of teams and other new work organization practices could be an indirect way to encourage greater training investments by employers. The state's Employment Training Panel funds eligible employers in a variety of job training and retraining skills selected by the employer, including high-performance work practices. The Panel focuses on employers who are competing with businesses out of state. Programs of this type could be disseminated throughout industry, especially to employers who are not in crisis, that is, not in imminent danger of layoffs or relocation.

Recently the U.S. Department of Labor released a report showing that much of what workers learn occurs informally, through learning by doing. On-line job performance is, quantitatively, a very important source of human capital formation. However, such learning is probably not a substitute for formal training but a complement to it. We know from the literature on learning organizations in Japan and the U.S. that these organizations tend to have innovative work practices such as self-directed teams, cross-training, and job rotation. But our report shows that these work practices are associated with greater variety and intensity of formal training in workplace skills and job skills. In addition, we find that those employers who rely *exclusively* on informal, on-the-job training tend to be smaller, older establishments in which skill requirements are not rising. Hence it may well be the case that "learning" organizations are also those that commit to spending more on formal training programs; that is, in learning organizations, informal and formal training are complements.

Another important point is this: We consistently found a statistically significant association between formal training and high-performance practices on the one hand, and use of employment-stabilizing personnel policies like employee benefits (especially pension plans) on the other. What this suggests is that, contrary to the "employability" model touted in the management press, *some* degree of employment stability is necessary for training and learning to occur. What is the optimal mix of stability and flexibility is not clear, but attempts to move too far in the direction of employment flexibility may well hinder formal training and informal learning.

The assumption is commonly made that small employers are less likely to engage in formal training than larger establishments. Yet our research did not find size effects when other variables were controlled for. Moreover, it is the state's larger establishments that more significantly lag behind national training levels. Thus, it would be a mistake for any kind of educational or informational programs to direct their resources only towards smaller employers. However, do keep in mind that our research did not examine "micro" establishments, those with fewer than 20 employees. Also, we did find that being part of a multi-

unit enterprise was associated with a statistically significant higher level of training. Hence the paradox: large companies are doing more training, although this is not necessarily true of large single-firm establishments.

We think that employers' confidence in schools and their involvement with them are related to decisions on training investments, although more extensive research is needed before we can clearly establish causality (i.e., whether employers train first and then become involved with the schools or the reverse). Nevertheless, getting employers more involved with schools has intrinsic merits and might also bolster confidence in employee ability and thus lead to higher levels of training. It might at least bring California up to national levels. Nationally, employers are apprehensive about being actively (as opposed to passively) involved because of concerns over cost, time commitment, and liability. Whatever could be done to allay these concerns, such as educating the state's employers about the *benefits* of being actively involved, is to be recommended. Again, the state can play a role by providing information to employers on the benefits of involvement and by convening "summit meetings" between educators and employers.

With regard to basic skills training, we find it interesting that relatively few employers, either nationally or in California, are pursuing this activity. The preponderance of California employers are satisfied with the basic skill levels of the workforce, which is not the perception created by the media or by certain employers' associations. Thus, if employers *are* concerned about workforce preparedness, the concern is directed toward higher-order skills. Only a minority of establishments (about 20 percent) are either pursuing basic-skills training or would pursue it if the cost were not so high. However, if large numbers of individuals are to be moved off welfare and into the workplace, there might be a need for greater basic skills training, either provided by government or by employers.

There have been many proposals over the years to have government subsidize the cost of private training. The usual reason for having government pursue this activity is that the social rate of return to general skills training exceeds the private rate; that is, the "market" (reflecting the decisions of private individuals and employers) produces less than the socially optimal amount of training investments. Society benefits from having a more skilled and educated populace through higher taxes, less hospitalization, and artistic and scientific achievements. But employers and individuals only examine the private benefits of training and education. Moreover, although training by one employer may provide benefits to other employers, the first employer is reluctant to shoulder these costs because employees are mobile. Although in theory employers should not be providing training that is useful to other employers, in point of fact such training does occur because in the real world it is nearly impossible for employers to separate firm-specific and general skills. Hence, if employers are sharing the cost of general skills training but are concerned about turnover, underprovision of such training is likely to occur. All of these notions lead in one direction: to the subsidization of training by government, just as government subsidizes general skills training by individuals via public schools and colleges.

Among those kinds of training subsidies that are considered most economically rational and politically feasible are: partially guaranteed loans to firms for training; state run partial subsidies of customized training (e.g., the ETP or community college approach); and subsidizing a firm's training expenditures above a threshold percentage of payroll that rises with firm size and turnover (an option that could be targeted to particular groups such as the disadvantaged or former welfare recipients). We think there is a strong case to be made for these types of subsidies. But these subsidies, or training tax credit, will require an expansion of present efforts. The growing recognition of the importance of employer-provided training, combined with the present fiscal health of California, makes this an auspicious time to consider an expansion of ETP-type programs that subsidize employer-directed training efforts.

Finally, we think the state should continue to survey employers to determine their training and work organization practices. Accurate information would help in the design of the proposals listed above as well as with the implementation of existing initiatives such as the School-to-Career programs, One-Stop Career

centers, and the like. Each of these initiatives calls for continuous assessment measures of how government is performing. Developing such measures requires accurate information on employer needs and practices. Hopefully our survey will serve as a baseline for future efforts.

Our study is only a first step, intended to stimulate additional studies on employer behavior and attitudes in California and other advanced regions in other countries. In the United States, at least, responsibility for workforce preparation increasingly is moving down from the federal level. Hence, California will need to learn more about the idiosyncrasies of its economy, including its private-sector workplaces. Public policy then can be tailored to fit our state, rather than some "plain vanilla" national approach. Moreover, understanding what is distinctive about California will permit the state's employers to benchmark themselves against national averages, thus helping them and California to perform better in today's intensely competitive global economy.

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TABLE 1: Hiring Criteria: California and National Results

	California		U.S.	
Criteria	Rank	Score	Rank	Score
Applicant's Attitude	1	4.4	1	4.6
Previous Work Experience	2	4.0	3	4.0
Communication Skills	3	4.0	2	4.2
Previous Employer's Recommendation	4	3.4	5	3.4
Current Employer's Recommendation	5	3.4	4	3.4
Industry-Based Credentials Certifying Skill	6	3.1	6	3.2
Score Received on Tests Administered during Interview	7	2.9	8	2.5
Years of Schooling Completed	8	2.7	7	2.9
Academic Performance (Grades)	9	2.2	9	2.5
Reputation of Applicant's School	10	2.1	10	2.4
Teacher Recommendations	11	1.9	11	2.1

Note: National data from EQW survey

TABLE 2: Determinants of Probability of Offering Different Types of Training

	No. of High Performance Work Practices	Use of Teams	Number of Benefits Programs	Increased Skills Required	Management Networks	Use of Consultants	Interaction w/ Schools
Types of Training							
Basic Skills	X			X	X	X	
Workplace Skills							
Any	X			X		X	X
Awareness	X		X		X	X	X
Teams or Groups	X	X				X	X
Overall Performance	X	X	X	X	X	X	X
Communication Skills	X					X	
Job Skills Training							
Any			X	X	X	X	X
Management/Supervisory	X		X		X	X	X
Professional / Technical			X			X	X
Computer			X		X	X	X
Office, Clerical, Sales, Cust. Service		X	X			X	X
Food, Cleaning, Personal Services						X	X
Production		X	X	X		X	X

Note: This table summarizes results from separate logistic regressions on whether or not each type of training was provided by the employers in the sample. An X indicates that the coefficient on the variable listed across the top of the table was positive and significant at the 5% level or better in the regression explaining the choice of the given type of training listed along the left-hand side of the table. Other variables included in the regressions, but not reported in the table, are controls for industry, size of the establishment, the age of the establishment, whether the establishment is part of a multi-establishment unit, union status, whether employment had increased or decreased in the past year, share of part-time workers, occupational shares, and share of production costs accounted for by labor costs. The first regression has 878 observations; all other regressions have 908 observations.

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TABLE 3: Determinants of Probability of Offering Different Types of High Performance Work Practices

	No. of High Performance Work Practices	Workplace Skills Training	Number of Benefits Programs	Increased Skills Required	Management Networks	Use of Consultants	Interaction w/ Schools
Types of High Performance Work Practices							
Self Directed Work Teams		X		X			
Total Quality Management		X		X	X		
Quality Circles		X	X				X
Cross-Training			X	X	X		X
Pay-For -Knowledge							
Meetings of Non-Supervisory EE's		X		X			
Job Rotation		X		X	X (-)		
Flextime		X	X	X			
Statistical Process Control							
Peer Review	X (-)	X		X			X

Note: This table summarizes results from separate logistic regressions on whether or not each high-performance work practice was used by the employers in the sample. An X indicates that the coefficient on the variable listed across the top of the table was positive (unless denoted by a (-)) and significant at the 5% level or better in the regression explaining the use of the given type of work practice listed along the left-hand side of the table. Other variables included in the regressions, but not reported in the table, are controls for industry, size of the establishment, the age of the establishment, whether the establishment is part of a multi-establishment unit, union status, whether employment had increased or decreased in the past year, share of part-time workers, occupational shares, and share of production costs accounted for by labor costs. All regressions have 908 observations.

TABLE 4: Determinants of Training Intensity

	(1) SHARE OF WORKERS RECEIVING PRODUCTION TRAINING	(2) JOB TRAINING INTENSITY	(3) COMPUTER TRAINING INTENSITY
No. of High Performance Work Practices	X	X	
Use of Teams		X	X
Number of Benefits Programs		X	X
Increased Skills Requirement			
Management Networks	X	X	X
Use of Consultants		X	X
Interaction with Schools	X	X	X
Age of Establishment			
Employment Increased?		X	X
Employment Decreased?		X	X
Labor Costs as Percentage of Total Production Costs			
Union			
Share of Part Time			
Multi Establishment Unit		X	
Occupational Controls	Yes	Yes	Yes
Size of Establishment Controls	Yes	Yes	Yes
Industry Controls	Yes	Yes	Yes
Number of Observations	904	904	904
Pseudo R-Squared	0.235	0.027	0.096

Note: This table presents results from tobit maximum likelihood regressions on three different measures of training intensity: (1) the share of all workers who received training in production skills, (2) job training intensity, defined as the average number of hours of formal job skills training per worker in the establishment, and (3) computer training intensity, defined as the average number of hours of computer training per worker An X indicates that the coefficient on the variable listed across the side of the table was positive and significant at the 5% level or better. Equations also include a constant.

Figure 1. Percentage of Establishments Providing Basic Skills Training

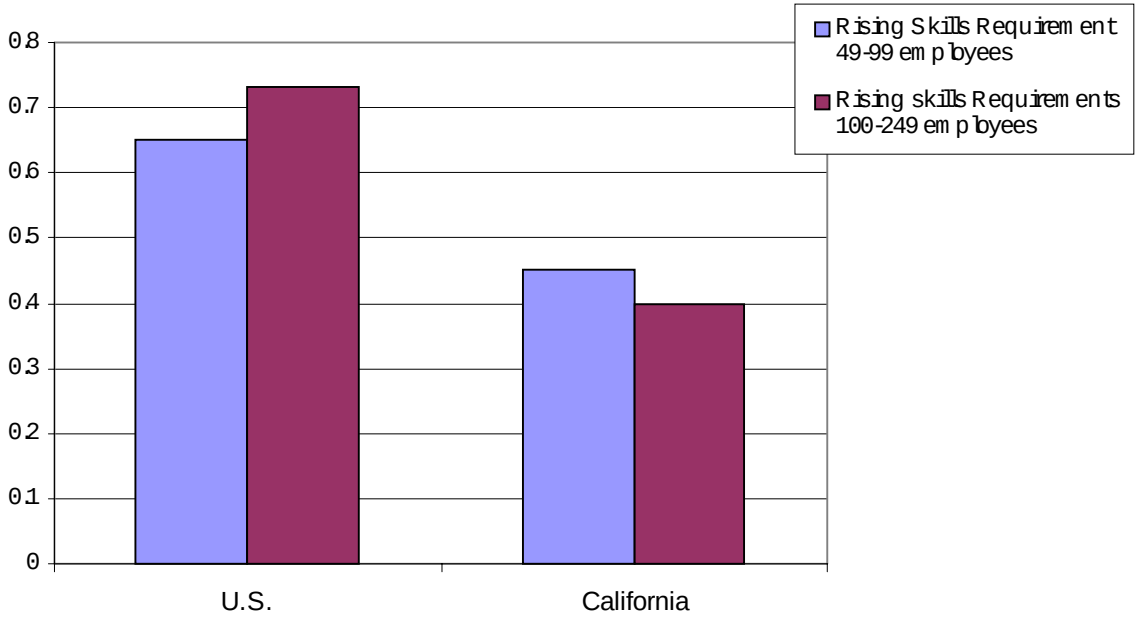


Figure 2: Percentage of Establishments Providing Workplace-Related Skills Training

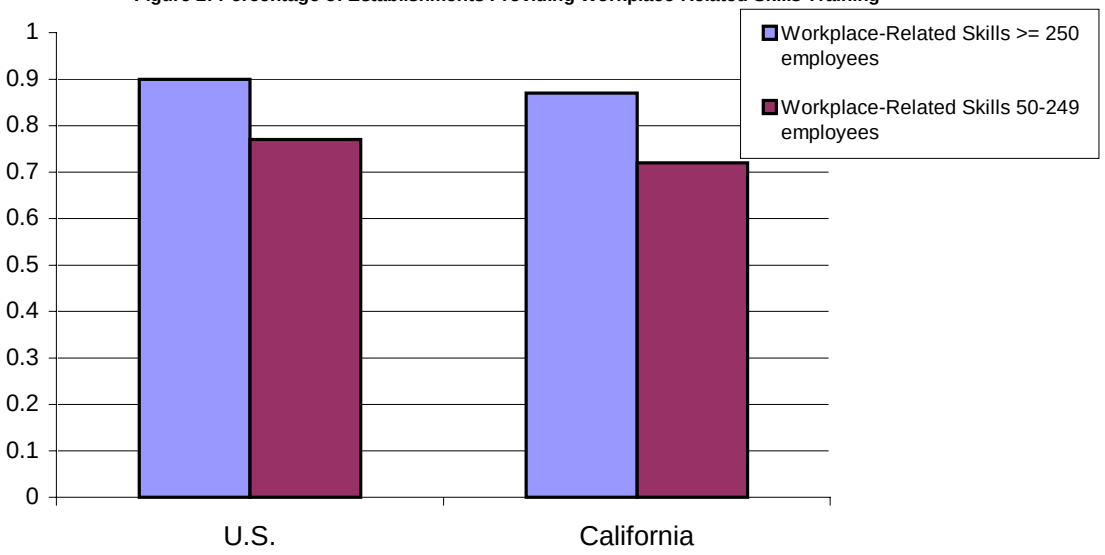


Figure 3: Percentage of Establishments Providing Computer Skills Training

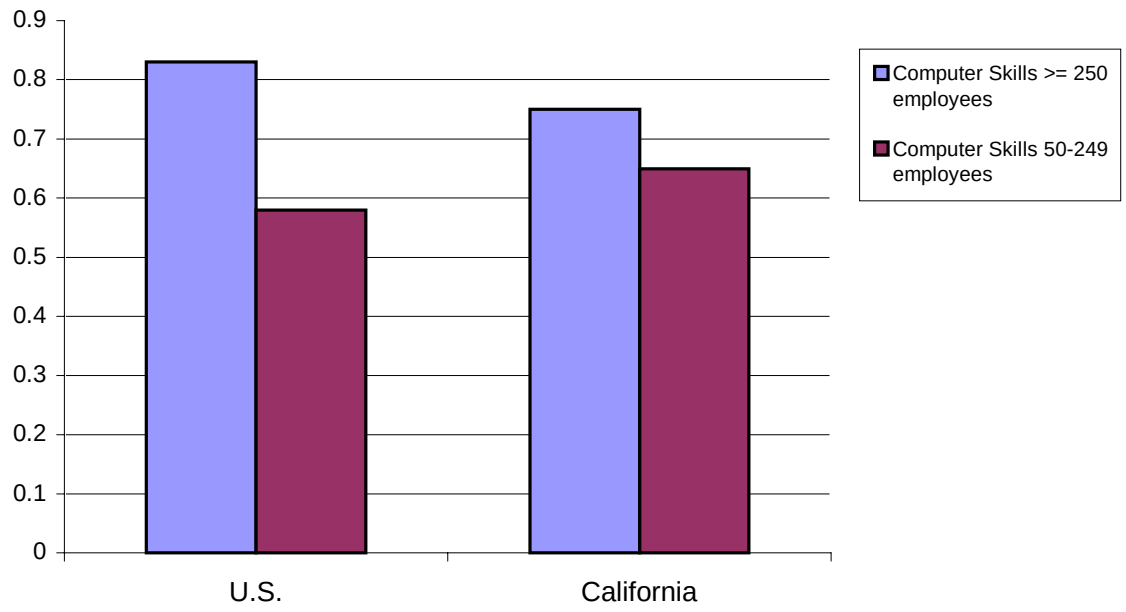


Figure 4: Percentage of Establishments Providing Production Skills Training

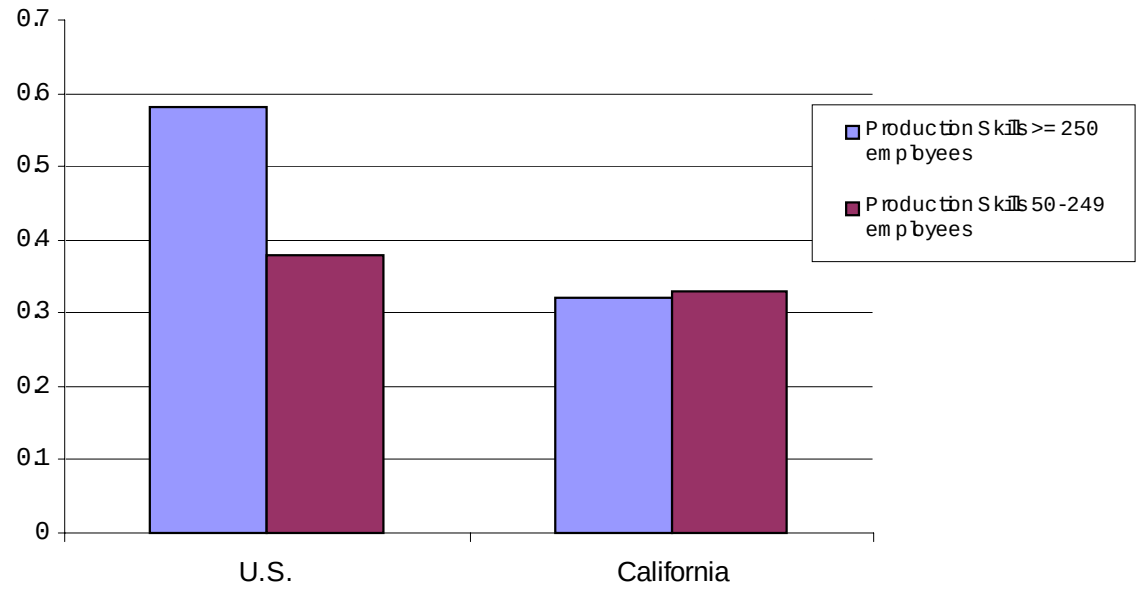
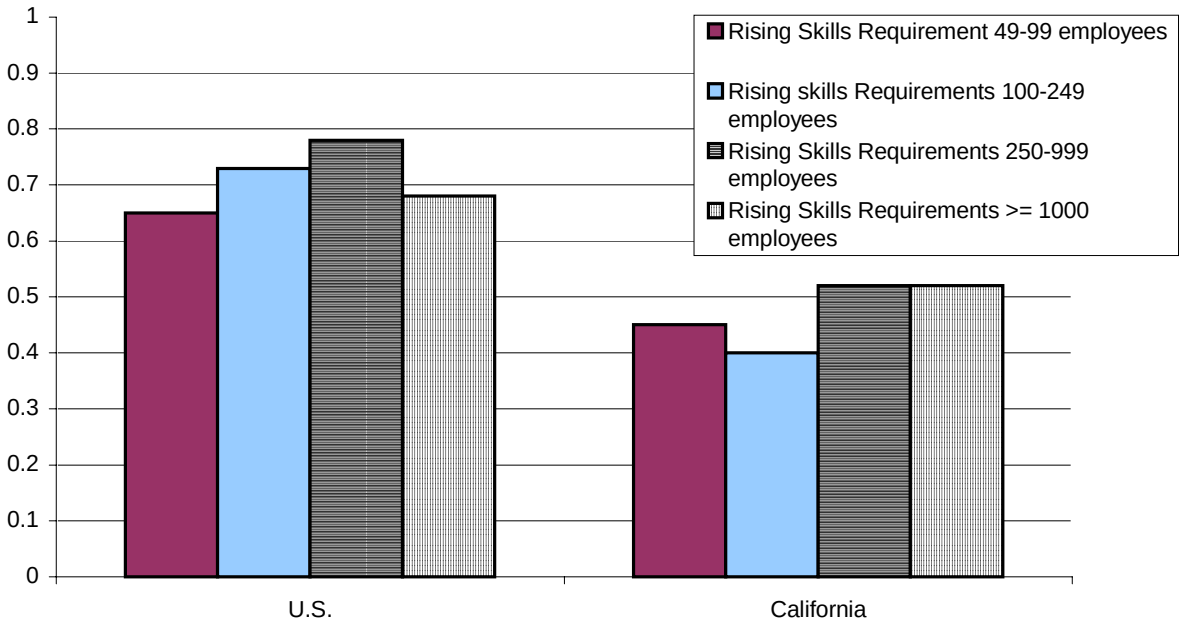


Figure 5: Percentages of Establishments Reporting Rising Skills Requirements



CHAPTER 9

PERFORMANCE AND WEB-BASED LEARNING*

ARCHIE KLEINGARTNER AND RONG JIANG

I. Introduction

Corporate training through the utilization of technology-based learning systems has been gaining popularity in professional circles for their accessibility, efficiency and effectiveness. Companies that once only had a choice between in-house and off-site residential training now have new options: video, conferencing, CD-ROM, and Online. This chapter examines Online learning, which is an especially compelling option among all technology-based learning solutions[1].

The advancement in computer-based communication helps speed the evolution of Web-based learning. Along with the remarkable growth of the Internet, many companies are installing their own internal corporate webs or Intranets, networks that look like the Web but are accessible only to users within the corporation. When these Intranets were first installed, they were used largely to communicate administrative information within the company, and for posting of personnel policies and job vacancies. Computers and data communications have made possible the transmission of instruction to multiple distant locations, and through the growth of the Internet and Intranet, opportunities for content delivery as a means to address the learning needs of corporations have been greatly enhanced.

Online learning may be quite basic or highly sophisticated and interactive. At the lower end, it relies on text, graphics, exercises, testing, and record keeping. At the other end of spectrum, Online learning incorporates animations, simulations, audio, video, peer and expert discussion groups, online mentoring, links to materials on a corporate Intranet or the Web, and uses extensive archival materials.[2] Because of its unique advantages, Online learning has revolutionized the way training is provided. Table 1 highlights the main differences between residential training and Online training. The temporal, spatial and interpersonal dimensions have been completely restructured. Participants are no longer bound to a fixed location and schedule, and they have greatly expanded opportunities to interact with instructors and peers. Anytime, anyplace web access makes possible a shift in corporate training from reliance on the instructor-led, residential training model to the self-paced training model. At a click of a mouse, employees can enter an Online course that paces the instruction to their own capabilities. They can repeat or go back to the material as time and circumstance may dictate. For these employees who wish to develop greater skills and career opportunities but unable because of economic or geographic circumstances to avail themselves of traditional learning venues, the

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WWW and the recent development in Online education provide a high payoff learning opportunity. Web-based learning can also improve the overall quality of training. Updating and maintenance of content can be easily centralized. From a company's standpoint this is advantageous because employees get consistent, ongoing, up-to-date information, regardless of the geographic dispersion of the learners.

Table 1. Residential Training vs. Online Training

Residential Training	**Online Training**
Instructor-led	Self-paced or Instructor-led
One-time lectures	Reusable lecture notes
Physical classroom	Virtual classroom
Discussion	Chat room/conferencing
Study group	Virtual community
Office hours	E-mails/telephones
Campus	Anywhere
Fixed time	Anytime
Text books	E-books
Library	Virtual library

Because of its anyone, anytime, anywhere capabilities, Online training is a significant component of the training strategy for an increasing number of corporations. Since about 1995 there has been a virtual explosion in the use of Online training. U.S. companies are spending more to train their employees, and that has been matched by a dramatic growth of educational institutions and private companies that purport to be able to train employees quicker and cheaper through the adoption of Web-based technologies. Although Online learning as a corporate training model is still in its early stages, it has stimulated a diversity of responses among the business sector: amusement, eagerness to embrace, suspicion, resistance. Initially, companies are spending the bulk of their online training budgets to teach workers about new technologies; in the future, as employees become more tech-savvy, corporate executives are expected to refocus their budgets on training in soft skills such as management, communications, and professional development (Lake 2000). At the end of the day, Online learning may transform how corporate management training is designed, organized, and delivered.

The rest of the chapter is organized into three parts. Part II traces the evolution of corporate training, focusing on the emergence of Online training. In recent years, spending on this type of training has increased significantly, although it still accounts for only one-fifth of corporate training dollars. Many corporations are attracted to Online training because it is cost effective and improves the firms' competitiveness. Moreover, employees also see this as a way to enhance their careers. Part III reviews the role of California, both as an innovator and consumer of Online training. The picture in California is mixed. While the state has been a major source of innovation, most California companies are still hesitant about replacing more traditional training approaches with Online training. Part IV examines the crucial roles of partnerships in expanding the use of Online training and quality of Online courses which are key to a sustainable growth of Online learning. To ensure access to quality instruction materials, companies and reputed business schools are increasingly working together to design custom courses with company-specific content. A move toward knowledge management partnerships provides linkage to private and non-profit organizations, government and higher educational institutions. The chapter concludes with comments on the challenges of Online training and some recommendations.

II. The Evolving Corporate Training Landscape

All corporate training, irrespective of how it gets delivered, has as objectives one or more of the following: training to assist employees to perform their jobs at an acceptable level, training to prepare

employees to perform more varied and complex tasks, and training to prepare employees for promotion and leadership. At a more strategic level, a goal of corporate training is to tie training to company goals and performance, and to help the firm gain competitive advantage. To these ends, corporations attempt to design and deliver cost-effective training solutions that can capture the best metrics of their strategic objectives.

Employer paid programs to train their employees are big business in the United States. According to an estimate by Multimedia and Internet Training Newsletter, spending on corporate training and education has grown by 5 percent a year for the past decade. Education and training accounts for 9 percent of GNP, and of the estimated $772 billion of total education market in 2000, 62.5 billion is allocated for corporate training (Wolinsky 2000). The resources that go into corporate training divide into two broad categories. Of the estimated total expenditures for formal training programs in the United States in 1999 of $66 billion, approximately one-half of it went into soft skills training (leadership, communication, general management, human resources, executive education, team building), commonly referred to as management training. The other half went into IT training (application software, system infrastructure, etc.). Spending on training and education for managers rose to $16.5 billion, up 17 percent from 1998 (Reingold and Schneider 1999). An increasing share of corporate training is being provided by "corporate universities." Corporate University Xchange (www.corpu.com), a New York City-based corporate education research and consulting firm, estimates that currently there are more than 1,600 corporate universities nationwide, up from only 400 in 1988. According to its 1998 survey of the deans of 100 top corporate learning organizations, the average corporate university budget is roughly equal to 2.6 percent of company payroll (Meister 1998).

About 20 percent of the total amount for corporate training is spent on Web-based learning (Bucher 2000). According to an estimate by the International Data Corporation (Urdan & Weggen 1999), Web-based delivery represented approximately 15.6 percent of all soft skills (i.e., management) training in 1998. By 1999 that percentage had increased to 27.8 percent. Table 2 captures the broad division of the corporate training dollars in the U.S. in 1999. The figures indicate that a little over one billion dollars of the estimated $62.5 billion corporate training dollars resulted in training delivered through Web-based training technology. Although the numbers in table 2 are estimates and would need to be refined before drawing fixed conclusions, they are generally in line with expenditure estimates obtained from other sources[3].

Table 2. Corporate Training Market Size by Training Product and Delivery Method in 1999 ($ Billions)

	IT Training	**Soft Skills Training**
Total Corporate Training Market	$31.19	$31.31
Outsourced Training Market	$9.45	$5.55
Technology-based Training Market	$2.27	$0.72
Web-based Training Market	$0.87	$0.20

Source: Urdan, Trace A., and Cornelia Weggen. 2000. "Corporate E-learning: Exploring a New Frontier." WRH + Co Weekly 2, 10 (10 March). Data in table 2 based on Training Magazine, International Data Corporation, and WR Hambrecht + Co estimates.

Most companies are supportive of Online training and expect it to grow rapidly in the future. In 1999, 92 percent of America's largest corporations had begun testing technology-based training models (Meister 1998). Two-thirds of the Fortune 500 companies now employ some form of e-learning to deliver professional development and training to their employees, and all of the training managers at these companies would recommend Online learning as a training model (Baum 1999). Motorola University offers 700 to 800 courses online, which is about 10 percent of its formal learning (Westerbeck 2000).

According to estimates, approximately 5,000 vendors, including 300 Online learning providers are fighting for a share of the Online training market (Lake 2000). Most of these businesses perform one or more of the following three functions: development of training materials, technological solution in the delivery and management of online training courses; or offering of consulting, hosting, or other learning-related services.

Experts anticipate a significant wave of consolidation in the years ahead as training providers compete to become one-stop Online corporate training centers (Lake 2000).

Online training is attractive because it lowers the cost of training for many firms. Testimony to this can be seen in the following remarks obtained in surveys of companies and other authorities.

> Instructor-led training is very expensive. You have to pay for the printed material, the speakers, lodging, food, and travel. But with Web-based content we're able to reach people at their desks. We're saving hundreds of thousands of dollars on travel alone. (Software company)

> The value proposition for Online learning is very simple to understand: It's all about making training available all the time, anywhere, for everyone. (Electronics company)

> Web-based training offers flexibility, accessibility, and convenience. Such training has a cross-platform feature, meaning that it can be accessed by Web-browsing software on any platform and allow inexpensive worldwide distribution. No separate delivery system is needed, keeping delivery costs to a minimum. (Brandon Hall)

As the demand for training increases beyond the resources available, budget restrictions have forced many organizations to seek Online learning as a more cost-effective training model. One way that Web-based training can realize cost savings is because corporations can eliminate long program development cycles and buy Online courses in bundles or on a subscription basis from training suppliers, consulting firms, and institutions of higher education.

Motorola University, one of the largest and most successful corporate learning entities, obtains much of its content from individual faculty members and research laboratories around the world that are not connected to Motorola. This content then gets developed into curricular material. Motorola also contracts for content with commercial firms such as Digital Think, Blackboard.com, Caliber, and Sylvan Learning Systems, all of which are working to gain market dominance in Web-based learning.

Established consulting firms such as Anderson and PricewaterhouseCoopers have invested significant sums of money to transform the knowledge in company files and in the minds of their experts who work for these firms into marketable Online training products. PricewaterhouseCoopers' Client Training Group (CTG) is prepared to develop classroom or Web-based learning for clients in both the hard and soft-skills areas.

Traditional training programs are typically developed course by course, based on specific needs within the company at a specific time, resulting in a fragmented training process. Online training offers greater opportunity for consistent content development and the economies of network-based learning systems and long-term cost savings. This will help to accelerate the trend among firms to allocate more of their time and resources to a networked training model. From a company standpoint, once the training infrastructure has been implemented it can be used again and again.

Some companies, like MCI, have recognized the power that is embedded in new technologies (May 2000). More than 55 percent of its employees can learn directly through the Intranet, using either virtual courseware – computer-based training, or a virtual classroom, where instructors and students assemble to exchange ideas, information and knowledge in real time. This technology alone has cut $917 per person for each day of travel to the company's Dallas training facility. The total savings from travel, facility and labor costs have exceeded an estimated $2.8 million since October 1997. Other cases in point include Fatbrain.com who lent its Information Exchange solution to Agilent Technologies, and helped to cut costs back as much as 20 percent for Agilent. This technology can add value to the development and distribution of training content in an extremely cost-efficient way. Our findings confirm that the cost of Internet and Intranet-based courses decreases rapidly once the initial conversion costs are recovered.

Cost, however, is not the only consideration in adopting Online training. There is also a concern about remaining competitive in an ever-changing economy. One thing all companies seem to agree on is that a knowledge-based, change-oriented environment can only be sustained if the creativity of the employees is

nurtured and developed through education and training. According to PricewaterhouseCoopers, about 70 percent of the world's 1,000 high performing companies view the absence of trained employees as the major barrier to sustained growth (www.pwcglobal.com). Many companies have adopted the view that to flourish in a highly competitive business environment, they must become a learning organization even though they are often not clear about what it means to be a "learning organization."

It would be unusual to find a large or medium-sized knowledge-based organization that does not provide its senior executives with several management development options. Weekend seminars at elite universities, or payment for executives to enroll in a two-year Executive MBA program are expensive and for many medium and small firms where budgets are tight, there are clear limits to how much of this can be done. Many of these companies look for less costly yet effective training alternatives. In addition, the challenge for knowledge-based companies is not only to serve the development needs of senior executives, but to make sure that the entire workforce has a way to systematically keep abreast of new knowledge and new developments. Tension exists between the high cost of traditional management training programs and the pressure to remain on the cutting edge that first prompts many companies to explore the potential of a corporate Intranet for Web-based training.

It is not only companies themselves that want to remain on the cutting edge in business terms, but professionals and managers within these companies who increasingly have to assume greater responsibility over management of their own careers and are insisting on more learning options for themselves. So it is not surprising that there is rapid growth in self-initiated training and education activities by managers. The Web provides the potential of getting high quality training content for a current job without having it interfere with work obligations to the current employer. There are also longer term career advantages. Increasingly the estimated 2.5 million executives and senior managers (Mailick and Stump 1998) have learned the basic fact that few companies will guarantee a manager an entire career of employment and advancement. These managers recognize that the most important asset a manager has is knowledge; as technology and working methods continue to change, managers need to continually upgrade their skills and knowledge. This is particularly important today when many managers may work for five or more employers over a career. To be in demand in the highly competitive job market, life-long learning is vital. Success in finding a good position depends on organizational, interpersonal and leadership skills as well as technical ability.

III. California and Online Training

California has had a mixed record with respect to Online training. Where the state shines is in its contribution to the innovations that directly and indirectly makes this Online training possible. Ironically, Web-based training is not widely adopted. Most California companies are still hesitant about adopting Online solution, but the momentum is in that direction.

California leadership in innovation is built on its high-tech industries, including semiconductors, computers, networking, and interactive multimedia. Among California's accomplishments are the first Internet transmission, the invention of the hard disk drive, and the computer work station. Its companies and educational institutions are at the forefront nationally in the development of advanced hardware and software. California has been widely recognized for its dynamic entrepreneurial efforts in leading the global information economy. This state is home to many major web sites and portals. State government has also encouraged the diffusion of new technologies. In 1989, the Farr-Morgan-Quackenbush Technology Act (AB 1470) established the California Planning Commission for Educational Technology to develop a master plan for California educational technology and to recognize the specific role of technology in corporate training and education.

The state's extraordinary technological infrastructure has enabled California to become a national leader in the development and distribution of training software, courses and programs. The efforts by the Los Angeles-based Quisic, www.quisic.com, company is an example of the innovative approaches to meeting the needs of the projected corporate market for Online training. Quisic (formerly University Access) partners with business schools to obtain access to faculty for content and then combines the content with its capabilities in technology and service to create e-learning solutions for the corporate and academic markets. Quisic's

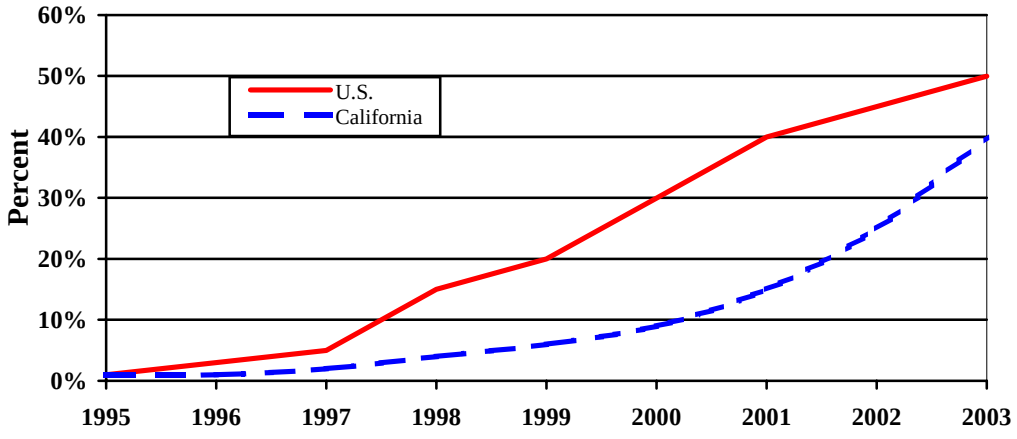
objective is to deliver a host of new products for the corporate management education market, including the recently announced Corporate MBA program with Kenan-Flagler's Business School at UNC-Chapel Hill. Recently, Internal & External Communications, a company that creates custom technology-based learning programs, was absorbed by Quisic to strengthen its capacity to provide custom training offerings.

Another distinctive and promising approach to the issue of acquiring quality content for Online training is represented by the startup company, Global Window Partners, Inc (GWP), www.globalwindowpartners.com/. GWP develops and markets learning products and services for educational institutions and corporate customers who deliver education online. GWP enters into agreements with individual (generally, University of California) professors for their teaching content, then does the work of transforming the content into market-ready interactive learning units. The principal product marketed by GWP is a catalog of curricula, courses, modules, lectures, and symposia, which can be delivered over the Web by educational institutions and corporate Intranets.

Meanwhile, some influential companies in California have undertaken fairly bold steps to implement the Online training option. The Charles Schwab Corp relies on in-house training but is transitioning to electronic training with a strong focus on Web-based delivery, and toward elimination of CD-ROM or other non-centralized mediums (UCLA Survey). CB Richard Ellis Services, a real estate leader in California, delivers its employee orientation training Online. It has recently partnered with the USC Marshall School of Business to develop instructional programs for sales professionals. At the same time the company intends to make rapid progress towards greater reliance on Online training by the year 2002. Agilent Educator's Resources Center gives more than 43,000 Agilent employees access to training documentation, book recommendations and related materials via Agilent's intranet education portal.

Despite the State's technological prowess and innovative entreprenurship, California companies as a whole have not embraced Online training. Traditional (mostly residential) training models still dominate some of California's more prominent corporations such as Walt Disney and Wells Fargo. Our research into the training practices of the largest 100 companies in California and companies of less than 500 employees in the manufacturing sector reveals that Web-based training in California companies lags behind the nation. The majority of California corporate training activities take place in an instructor-led classroom, and relatively few companies have initiated Web-based training or out-sourced their training. Figure 1 shows the relationship between California and the United States in integrating education technologies into corporate training.

Figure 1. Percent of all Corporate-training Delivered via Technology: California and U.S, by selected years



Sources: The projection of the U.S. and California trends is based on the Survey of Corporate University Future Directions, report from International Data Corporation about the U.S. Web-based corporate training activities, UCLA's survey on California Top Employee 100, and data provided by the California Training Cooperative.

The relative lack of Online training is not unique but instead appears to be symptomatic of a broader problem. As Erickson and Jacoby note in their chapter in this book, employer-based training is less prevalent in this state than for the rest of the nation. A study by the California Training Cooperative reveals that Baldridge Award winning companies in California reported 1.5 percent of payroll expenditures on training in comparison to the 2.6 percent reported by companies nationwide. According to a report form the California Training Cooperative, small and medium-sized companies of less than 500 employees that are primarily in manufacturing in California provide less than 10 hours of formal or informal training per year and typically do not assign a budget for training.

Universities have not been able to close the state's gap relative to the nation State as a whole in Online training. Selected executives from these firms as well as from larger corporations take advantage of the vast array of management training and development programs offered by the campuses of The California State University and The University of California. Although both institutions are starting to make Online instruction available to the business community, it remains a relatively small component of their total instructional offerings. The residential programs created by the University of Southern California (USC) and tailored for Hughes Electronics and Kaiser-Permanente executives, and the PricewaterhouseCoopers short-term executive training programs at UCLA's Anderson School of Management, are good examples of the residential program offerings of California universities. What is needed, however, is a greater effort to complement the residential programs with more Web-based programs.

While today's use of Online training appears suboptimal, the prospects for the next decade is better. Our California study shows that virtually all the companies surveyed anticipate rapid growth in the use of the corporate Intranet for management training. Corporate expenditures for employee training of all kinds will continue to grow statewide with Web-based training capturing an ever growing share of dollars.

IV. The Future of Web-Based Corporate Training

The predictions for Online training look bright. Motorola University, for example, intends to move about 30 percent of total learning online by 2001 and 50 percent by 2003 (Westerbeck 2000). Projected increased use of Online learning is not limited to one corporation. The majority of companies have Online initiatives in place, and if their plans are realized, then the use of Online training will accelerate. Moreover, those using Web-based training are willing to recommend it to others. A survey done by IDC among American training managers from companies that have used Web-based training reveals that nearly 100 percent of the respondents would recommend Internet-based training to companies that are not currently using it, with 60 percent strongly recommending it (Urdan and Weggen 2000). Both increased usage by firms already using Online training and its diffusion into other companies has a potentially large impact. IDC predicts that the U.S. corporate market for e-learning will exceed $11 billion by the year 2003, representing a compound annual growth rate of 83 percent from 1998 to 2003. A 1998 Survey by Corporate University Future Directions indicates that training delivered with assistance from technology will increase from 20 percent of all corporate training in 1998 to over 50 percent by 2000 (Meister1998).

Despite the optimism, how quickly the use of Online training will grow remains an unanswered question. The fact remains that, at most, between 10 and 20 percent of all corporate training in the U.S. is presently being delivered via Web-based technologies. Examination of how individual companies address training reveals substantial experimentation with new methods and approaches, but skepticism about abandoning traditional approaches until additional evidence on the effectiveness of technology-based training is accumulated.

In theory, Online training courses offer greater opportunity for consistent, up-to-date learning content. Almost any topic can be delivered over the Web. An Online curriculum can be easily customized for the unique needs of a particular company. In reality, there are serious issues and questions. How solid is the evidence that Online training programs can properly address important corporate training goals for improved performance? The Web-based model provides elements that conventional training cannot match: flexibility, convenience and cost-effectiveness. On the negative side of Online training are hidden costs, technical hassles in using the courseware, lack of mental discipline and aptitude on the part of learners and excessive reliance on static,

superficial and text-heavy learning content. These barriers to rapid acceptance of Web-based training are among the explanations for the gap between the promise and reality of improved organizational performance through Online training.

First, Online learning still tends to have many technical glitches that traditional learning formats do not have. The development of Web-based programs is intended to make training programs more accessible and to provide greater flexibility in the delivery of instruction; however, it can involve unexpected technical problems to companies resulting from limits of technologies, misuse of systems and equipment and from gaps in the qualification of the technical staff. For example, the bandwidth limitations of the telephone lines used to connect to the Internet or a company's Intranet may restrict the quality of video, and inhibit sound and motion synchronization resulting in a waste of time and money.

Having high quality training content available on the Web “all the time, anywhere, for everyone” is desirable; getting it accomplished is no easy matter. There are obvious issues of cost involved as more features and more complex technology delivery mechanisms are adopted. Meanwhile, the costs of acquiring and transforming content into compelling Online training materials are high. The hidden cost of an Online strategy is another inhibitor that prompts many companies to delay deployment. The additional costs, which include the initial development costs that involve expensive programming costs, especially for highly customized software, course administration, fees incurred in maintaining Online communities, and the costs of updating course content, intangible costs that may make the presumed economies of an Online solution disappear. In many California companies, no metrics have been effectively implemented; however, they reported a waste of significant capital in designing Online training programs.

Another prominent issue of Online learning concerns poor quality of content. In the early stages of development a great deal of Online instruction consisted of little more than placing textbook (generally outdated) and other readily available (which frequently translated into materials where the copyright had expired) text material on the web. From a technical standpoint it is relatively easy today to include interactive elements, simulations, video, email and other learning aids in Web-based instruction. Few companies, no matter how large, have a sufficiently large internal market to financially justify producing Online training material for their use alone, except for highly tailored courses to meet internal requirements. Accordingly, corporations establish connections with various content experts, production companies and vendors, to obtain the desired Online training materials.

To provide the Online instruction materials that corporations are willing to purchase, the burgeoning number of training companies seek to join with business schools and other knowledge experts to design quality custom courses with company-specific content. There are several problems that cast doubt on the viability of this approach. For one thing, professors in business schools are typically not eager to develop Online course content over which they may lose control. Another problem is that universities themselves are trying to define their own role as well as the revenue generating potential of the Online corporate training market. So there is a lot of foot dragging by the university community. Quite naturally, universities ask, if the growth of the Online training market will be as robust as many projections suggest, why don’t the universities themselves create and market Online training materials? For most universities this could be done as part of the established Extension programs or as part of the residential management training programs already in operation.

In February 2000, the American Society for Training and Development organized a study on the acceptance of new learning technologies. The study asks, do learners, when offered technology-based training, still prefer classroom-based training, or abandon technology-based training after only a few sessions? Among the findings, factors that result in high dropout rates are poor incentives to learn due to lack of accountability for completing classes, and the inability of poorly designed courseware to hold a person’s attention (David 2000).

While Online training eliminates the need for lengthy, inefficient off-site courses, it can be more expensive, time-consuming and perhaps not as stimulating as a classroom experience. The promise for Web-based learning lies in the fact that when education technology and classroom instruction work in concert, the entire learning process can be more efficient, targeted and strategic. A classroom setting offers time-tested

interpersonal, face-to-face contact, which Web-based training cannot match. On the other hand, Web-based learning can substitute for traditional training approaches in many ways and enable participants to acquire the knowledge and practice the skills more efficiently than in a classroom. A well-designed technology course charts progress, provides feedback, and ensures that completion of the program guarantees an appropriate level of competency. We believe that Internet and Intranet-based learning can never replace classroom teaching and face-to-face contact. Many executives voice concerns that Online training receives less personal attention from top management and reduces group interaction. Despite its limitations, intelligent use of web platforms for professional learning combined with traditional learning formats and structures can contribute effectively to corporate needs for improved performance.

Leadership will be needed to ensure the future. One example is the American Training Council, which helps its members to access government funding for training initiatives in California. The ATC claims to have helped more than 400 member companies access funding assistance. Another kind of leadership is provided by the California Training Cooperative (www.ctcoop.com), an example of a sophisticated training organization which helps member companies obtain faster access to quality training resources at competitive rates. Its mission is to help California employers build a sophisticated and competitive workforce through training and development of human potential. It emphasizes Online training and serves as a window for employers to access in concrete ways the potential of Web-based training.

The promises and limits of education technology raise important public policy questions. For the state of California to retain its cutting edge, political and business leaders will need to pay close attention to learning and skills development through effective and affordable training solutions. Supportive policies towards the nurturing of a sound Online learning environment will contribute to the preparation of managers in California to meet the challenges of a complex business environment.

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Endnotes

[1] No consistent terminology has emerged when discussing technology-based learning. This chapter uses the term Web-based or Online learning to cover all learning activities delivered over Internet, Intranet or Extranet. Electronic learning is a broader term that encompasses not only Web-based learning but satellite broadcast, interactive TV, CD-ROM. A still broader term is distance learning which, in addition to all of the above, includes courses conducted via written correspondence.

[2] The effectiveness of Online training has also improved with progress in software and hardware. Lotus's LearningSpace 2.0 and Macromedia's Authorware 4, WBT Systems' TopClass, IP-compatible multimedia course ware authoring systems are all noted for their ability to exploit the potential of the Internet and Intranet - flexibility, manageability, animation, special effect features, and ease of use. PhotoShop, Dreamweaver, Flash, composer and other technologies provide the underlying material for creating a truly effective web course. Technologies such as real-time chat and multimedia video and audio features help create virtual conversational pathways and provide a platform for the integration of various skills that will make it easy for learners to get access to online courses, not handicapped by spatial constraints.

[3] It should be noted that differences in estimates are the norm rather than the exception. TheStandard.com, an authoritative source of data about the internet economy in a recent report stated that U.S. corporations would spend $66 billion in 2000 on corporate training. Estimates of total expenditures for corporate training range anywhere from 62 to 70 billion and Web-based training as constituting anywhere from 1.5 to 4.0 percent of that amount. Experts expect rapid growth in the use of the Web for delivery of corporate training.

CHAPTER 10

HOW SAFE ARE CALIFORNIA'S WORKERS AND WHAT NEEDS TO CHANGE?

MARIANNE BROWN

> California workplace injuries and illnesses reached their lowest rate in 1998 since data began being collected some 27 years earlier…The rate of non-fatal injuries and illnesses (I &Is) dropped to 6.7 per 100 workers, from 7.1 in 1997 and '96…The record low I & I rate was produced during a time of significantly higher employment - the sectors covered increased their aggregate workforce by 3.2 percent in 1998. (Cal-OSHA Reporter 2000)
>
> I do not think the workplace is safer at all; we just aren't reporting as we should. Being good doesn't seem to be as important as looking good.
> (Industrial Safety and Hygiene News 2000)

It is virtually impossible to determine the status of workers' health and safety in California, or in the U.S. for that matter, for a variety of reasons. Attempts have been made to consolidate government-generated statistics by the AFL-CIO in their annual reports, *Death on the Job: The Toll of Neglect* (AFL-CIO 2000). The U.S. Bureau of Labor Statistics issues annual reports on injuries/illnesses and fatalities of California's workers (www.stats.bls.gov/oshsum94.html 2000). Workers' compensation information can be obtained from the California Division of Workers' Compensation website (www.dir.ca.go/workers'_comp.html 2000). And other, less formal, sources are available for review such as the California Fatality Assessment and Control Evaluation (FACE) reports from the State Department of Health Services and information gleaned from OSHA/Environmental Crimes units in some district attorneys' offices.

Looking at these end points, injury, illness, fatality is the common, though not the best, public health method for assessing the scope of the problem. It is important to be able to characterize health and safety conditions in the workplace in order to build a stronger case for workplace and governmental policies that improve such conditions for workers. With a clearer understanding of the extent of the problem, stronger arguments can be made for greater resource allocation to address this issue in the areas of: research, small business assistance, professional and employer/worker education, and other initiatives.

When most people hear the term "workplace health and safety," they think "regulation" - Cal-OSHA. There is definitely a role for this agency, but with approximately 220 inspectors for well over one million establishments, it has been estimated that it would take 104 years to inspect each workplace in California just once (AFL-CIO 2000). But, more important even than

the staffing issue is where should the emphasis be? To use an analogy, should employers be preparing for the test that is likely never to be given or should there be a firm commitment to creating a workplace free of injuries, illnesses and fatalities in which our working population spends approximately 40 percent of their waking hours each day?

In California, with the seventh largest economy in the world, we see too often these kinds of stories in our newspapers:

> 17 Injured by Nitric Acid Spill. *San Diego Union-Tribune*, 6 April 2000
>
> Workers who helped assemble rockets at Rocketdyne's Santa Susana Field Laboratory died of lung cancer at twice the rate as other employees at the facility. *Los Angeles Times*, 17 April 1999
>
> 2 More Die From Blast at Tosco; Angry Supervisors Question Plant's Future. *San Francisco Chronicle* 25 February 1999
>
> Tank Explosion in Dixon Kills Worker; 2 Others Hurt When Fertilizer Container Bursts. *San Francisco Chronicle* 9 February 1999

This chapter will look at the existing health and safety information sources for California's workplaces and the limitations of these sources. We will also make recommendations for new approaches to both ascertain the extent of the problem and the policy changes needed to prevent such casualties in the future.

First, it is time to revisit the two quotations at the beginning of this chapter. How do we reconcile these two differing pieces of information? One of the most common ways enforcement agencies make an assessment about the extent of the problem is to look at injury/illness/fatality statistics and note the way the trend is going. For example, Federal OSHA targets certain industries for scheduled inspections or training grants based on the Bureau of Labor Statistics' injury and illness rates; this year they are targeting construction, food processing and nursing homes based on the high injury rates in these sectors (www.osha.gov/).

Employers and their trade associations also look to these statistics as good indicators of the scope of the problem, particularly if the rates are decreasing. For example, Willie Washington, spokesperson for the California Manufacturers' Association, said, "The true measure (of safety in California) is the state's work injury rate, which has declined 28 percent since cresting in 1990-91. That trend takes on added significance considering that California's work force greatly increased" (*Sacramento Bee* 1999).

But, there are many reasons to be skeptical about these annual governmental reports. It is generally acknowledged that work-related conditions are under reported, particularly with respect to work-related illnesses. An occupational illness, or disease, is defined by Federal OSHA as "any abnormal condition or disorder, other than one resulting from an occupational injury, caused by exposures to factors associated with employment" (Department of Industrial Relations 1985). For a number of reasons work-related diseases are difficult to recognize. The numbers reported are just the tip of the iceberg (Leigh et al. 1997). estimate that there were 862,200 work-related illnesses in the U.S. in 1992. They arrived at this number by adding the work-related illnesses reported in the 1992 Bureau of Labor Statistics' Annual Survey (which includes private sector workers only), added the numbers reported by government employees,

and then added the proportions of cases attributable to occupation based on epidemiologic studies: 6-10 percent of all cancers, 5-10 percent of all coronary heart disease, 5-10 percent of cerebrovascular (e.g., strokes) diseases, 10 percent of all chronic obstructive pulmonary (lung) diseases, and 1-3 percent of all kidney-related diseases (Leigh et al. 1997).

If we were to assume that California has approximately 10.5 percent of the public and private sector workers in the U.S. (U.S. Census 1998), that the number of cases were equally spread around the U.S. in proportion to the number of workers and that the number of illnesses did not change much over the period from 1992-98, then using Leigh's estimates, a conservative estimate for the number of occupational diseases in California would be approximately 90,531 work-related illnesses annually in California. Instead, our Division of Labor Statistics and Research lists 55,400 cases, 39 percent less than that projected by Leigh (Cal/OSHA 00-7306 2000). Why the discrepancy?

Work-related diseases are hard to track for many reasons. Generally, they do not have unique pathologies, so that a lung cancer caused by cigarette smoking may not look different from one caused by a workplace carcinogen. Also, work-related diseases can be confounded by other factors, such as a worker who drinks alcohol excessively and is also exposed to a solvent that can cause kidney or liver disease. If the doctor considers etiology at all, they will most likely ascribe the problem to alcohol. Most physicians in the United States do not receive any training in work-related diseases. They do not take an occupational history to determine whether the disease could be work-related, and they do not know the type of work-up to do if there is an indication of work-relatedness. Furthermore, most doctors do not know they have an obligation to fill out a "Doctor's First Report" form and send it to our State Division of Labor Statistics and Research if they do suspect a job relationship.

Another factor that contributes to underreporting of occupational diseases is the long latency period of many such diseases. That is, an exposure to a workplace toxin today may not result in disease symptoms until many years later. Consequently, the connection between exposure and disease is not made either by the worker or the medical provider (again, no occupational history having been taken). These factors all result in underreporting on Death Certificates and on the Employers' Cal-OSHA Log 200 where they are required to report annual injuries and illnesses incurred in the workplace.

The expected number of deaths from work-related injuries, projecting down from Leigh et al's national statistics, would suggest that in California there would be approximately 683 injury-related deaths each year. In 1998, 617 deaths were reported to California's Division of Labor Statistics and Research. (AFL-CIO 2000). At first glance, this is not such a great discrepancy. However, this California number includes reported deaths due to injuries AND those due to occupationally related diseases. Leigh et al. project that each year there are 60,300 deaths due to work-related disease (Leigh et al. 1997); for California that would translate into 6,332 such deaths. Compare this with 3,259 gun deaths in California in 1998, something which gets a lot more coverage in the media (CA Dept. of Health Services 2000). A work-related injury death is hard to "cover up" and there are a number of agencies that get involved when one occurs: the county coroners' offices, Division of Workers' Compensation, and Cal-OSHA, who is to be notified immediately when such a death occurs. In 1991 Cone et al. examined deaths due to injury on the job for a one-year period and found that county coroners identified 69 percent of such deaths, workers' compensation records identified 48 percent and Cal-OSHA investigated a little over 21 percent of these deaths. The authors recommended that all these files be combined to "provide a more complete ascertainment of on-the-job fatalities" (Cone, et al. 1991). To date,

this consolidation has not occurred. A work-related illness fatality is usually not recognized for the reasons already discussed earlier.

The number of non-fatal injuries reported in California for 1998 were 724,100. Leigh would have predicted 1,386,000 such injuries, a possible underreporting by 48 percent (Leigh et al. 1997). Why is there such a discrepancy? In some cases it is unintentional; small businesses, in particular, are not aware of the reporting requirements or they do not understand the fairly complicated procedure they have to go through to report. More importantly, there are many disincentives to report injuries in the workplace.

From the employers' perspective, more reported injuries and illnesses may impact them negatively vis a vis workers' compensation premiums and at the time they experience a Cal-OSHA inspection. Most employers are "experience rated" by our state workers' compensation system, such that if their injuries/illnesses increase they are at risk of experiencing an increase in the annual workers' compensation premium that they will have to pay. If they are self-insured, they will have to use the money set aside for such purposes, and that money will not be available for other "more productive" purposes by the company or agency. When Cal-OSHA conducts an inspection of a workplace, one of the first things they ask to look at is the Cal-OSHA Log 200 of Injuries and Illnesses. If the inspector perceives the incidences to be high in certain areas, they may decide to focus on those areas for the inspection, in addition to the ones that were targeted by the complainant who requested the inspection.

Workers are often reluctant to report injuries and illnesses for fear of being seen as a "complainer" or "weak." In fact, there are commercial services that keep databases of workers who have filed for workers' compensation, which employers can refer to when they are considering to hire someone. For example, a service called "CompData" allows users to electronically access claimants' records by Social Security number. And, some employers automatically require drug or alcohol tests for workers if they report an injury or illness, under the pretext that they were "under the influence" at the time the incident occurred. This is another deterrent for the worker.

Another phenomenon which may be contributing to lower injury and illness rates is the adoption of "Safety Incentive" programs by employers, a practice that appears to be increasing. In a 1998 review of the literature on safety incentives programs, the reviewers found that during the 1970s and 1980s companies relied on positive feedback to induce workers to implement safe work practices. In the 1990s they put more emphasis on providing material rewards rather than positive feedback. "These newer incentive programs often measure reductions in reported injuries rather than improvements in safe work practices" (Dennison Associates 1998). In these programs, employers give workers rewards if they do not suffer an injury during a certain time period. Companies have sprung up which sell such programs to employers. Seth Marshall, the founder of Santa Monica-based "Safety Pays," started a safety incentive program that was so popular among his 70 employees that he decided to sell it to other businesses. On the "Safety Pays" website (www.safetypays.com) it is described as a "low-cost incentive program designed to reduce workers' compensation claims in virtually any commercial or industrial environment."

Some programs are set up like the game "Bingo." Every worker has a chance to win. The employer creates a small jackpot of $100 or less, and distributes bingo cards to all workers. A number is drawn on each injury free day. The jackpot is increased each of these days. When a worker has enough numbers in a row for a "bingo," he wins the jackpot. After the win, a new game is started with a jackpot that reverts to the previous game's final value. However, when any lost time injury of 24 hours or more occurs (a "lost time" injury under Cal-OSHA rules), the

jackpot returns to the original amount of money. The proponents of these programs contend that "peer group pressure is felt by workers to avoid short-cuts and similar unsafe actions" (Dennison Associates 1998). There are many testimonials in trade journals, the popular press, and on company websites that the use of such "Safety Incentive" programs has significantly reduced workplace accidents and workers' compensation costs.

Such programs may, in fact, have an effect on reducing injuries and illnesses. But it has also been reported by workers that individual workers and work teams both have strong disincentives to report because they will lose their individual or team bonuses, prizes or rewards if they report an injury or illness. Research conducted in 1996 in wood products mills found "the extensive use of bonus or incentive schemes." These schemes give out rewards that range from dinners or jackets to money based on either the individual or work team going a certain number of consecutive days without a lost time accident. "In one extreme, but still illustrative example of the power of these bonus schemes, a worker who lost the tip of his finger in an industrial accident returned to work from the hospital on the same day saying, 'I don't want to lose my $50'" (Grunberg and Greenberg 1996). Needless to say, these kinds of programs could have a profound effect on injury and illness statistics.

Another method employed to reduce the number of lost day injuries/illnesses is to put workers on restricted, or "light duty." This practice was described numerous times at this spring's Federal OSHA Ergonomics Standard hearing in Portland Oregon. Injured workers reported they were asked to go to "Wellness Rooms" to watch safety videos, read safety pamphlets, fill out safety quizzes for days, and sometimes, weeks on end. In other cases they were removed from their regular work and asked to paint walls over and over until they felt they were able to go back "on the line." Two safety professionals who have worked for private workers' compensation companies in California over the past 15 years acknowledged that, "There is an emphasis in the past 5-8 years to return workers to "light duty" to reduce workers' compensation costs, a practice that can actually benefit the worker if done legitimately, if an individual's wages are significantly more than workers' compensation...The open question is whether this 'return to work' program is managed the way it was intended and is not a tool to wear down a worker to get them to quit" (interviewed by Brown 2000). These practices keep the injuries off the Employer's Log 200 as a "lost time" injury because the worker stays on the worksite. A "lost time" injury is seen, by OSHA and insurance companies, as a proxy for the severity of an injury. The more "lost time" injuries there are, the more likely the company/agency will be viewed as having some serious safety problems.

As noted at the beginning of this chapter, the 1998 workplace injury and illness rate in California dropped to 6.7 from 7.1 for the previous two years (Cal/OSHA 2000). At the same time, there was a 3.2 percent increase in the workforce. Other data tell us there was also about a 9 percent increase in the number of businesses between 1997 and 1998. Knowing that 80 percent of California's businesses have 6 or fewer employees (www.calmis.cahwnet.gov), we can assume that many of those new businesses were small. This raises the question of whether those new businesses, many of them small, were apprised of their responsibilities to keep records of injuries and illnesses and report them to the Division of Labor and Statistics. They may, in fact, have never received information about this obligation.

In addition to the increase in the number of small businesses, over the past 15 years there has been a significant increase in the number of "contingent workers," those who are self-employed, work part-time or are temporary. Nationally, it is estimated that 25-35 percent of those who work fit this category now (www.dol.gov/). Although exact percentages for

California are not available, we can assume similar rates here. Those who are self-employed are not required to report injuries/illnesses on the job, and those who work part-time or temporary may be reluctant to report injuries/illnesses for fear of job loss. These workers are unlikely to be represented in the workplace and injury/illness statistics. In addition, there are many more workers working at home. Those who work at home and are self-employed are not required to report injuries/illnesses. Those who work at home for a company/agency, such as garment workers or circuit board assemblers, are supposed to be included in the statistics, but may, in fact, get "overlooked" by the employer.

The relatively new extended work hours of Americans also affects one's sense of well-being, and, it can be argued, one's health. According to a national study by the Families and Work Institute, those who worked full-time jobs in 1997 put in an average of 47.1 hours a week, up from 43.8 hours in 1992 (Wilgoren 1998). The same study found that 63 percent wanted to work less. Most said they had to work very hard (68 percent) and very fast (88 percent), and that they still did not have time to get everything done (60 percent). This kind of "speed up" can affect both mental and physical health. Along these lines, a report released in August 1999, found that "As many as one in four U.S. workers may be chronically angry on the job, with irate employees also more likely to be bored, have low energy and feel 'stuck' in their posts" (*Los Angeles Times* 1999). The study found that workers were most likely to be angered by a supervisor or co-worker who was not being productive while they worked under tight deadlines and heavy workloads. These "psychosocial factors" may have a "broad influence on worker safety and health and may contribute to occupational injury, work-related muscular disorders, cardiovascular disease and other occupational health concerns such as indoor air quality complaints" (www.cdc.gov/iosh/nrsoce.html).

In the case of cardiovascular disease (CVD), the number one cause of morbidity and mortality in the industrialized world, it has not been generally associated with working conditions. There is one exception. When police or firefighters suffer from CVD, there is a presumption that condition is at least partially work-related under California's Workers' Compensation Law. Only in the past several years has there been more attention given to the connection between social factors such as workplace stress and CVD. The work of Robert Karasek at the University of Massachusetts at Lowell and Peter Schnall and his colleagues at the Center for Social Epidemiology in Santa Monica has raised our awareness about these relationships. The latter group introduced the term "econeurocardiology" to describe how social factors, such as work stress, are perceived and processed by the central nervous system, resulting in changes in the body that can increase the risk of CVD. Again, if, in fact, there is this relationship, then many more of those with CVD should be diagnosed as having a "work-related disease." Currently those workers are not included in any workplace injury/illness databases.

As the elderly population continues to grow faster than the general population, we should expect a corresponding rise in workplace injury/illness and fatality rates. Because of slower reaction times, decreased stamina, likelihood of falls, greater susceptibility to chronic diseases and other factors, older workers are at greater risk. In 1993, the rate of fatal traumatic injuries was 15 per 100,000 for workers aged 65 and older, compared to 5 per 100,000 for workers aged 25 to 34 (www.cdc.gov/iosh/nrsoce.html). The aging workforce is another reason we might expect injury/illness/fatality rates to be increasing.

There are some unique conditions in California, in particular, which would suggest that injuries/illnesses/fatalities are not decreasing. We lead the country in the number of immigrant workers, many of whom are undocumented. An estimated 5 million undocumented immigrants

were residing in the United States in October 1996. California was the leading state of residence, with 2 million (Statistical Yearbook of the Immigration and Naturalization Service 1997). Undocumented workers are not likely to report injuries/illnesses to their employer for fear of losing their job or suffering some other repercussions. Also, many immigrants, documented or not, work in the informal sector which involves legal goods and services but which is not effectively covered by state regulations. Examples include selling oranges to passing motorists or providing care to an elderly woman in her home.

As Mitchell and Wu report in this book, part of the current employment growth in California can be explained by growth in our business service sector. And some of this growth is due to outsourcing of activities such as office cleaning, building security, and indoor/outdoor flower tending. Unskilled workers who do this kind of work are likely to be recent immigrants, employed by small employers who are less likely to report injuries/illnesses.

There are many reasons to be suspicious about the "official" worker injury and illness statistics. A number of those reasons have been elucidated herein such as disincentives to report, current work organization and workforce trends (i.e., changing demographics) in the U.S., and trends more specific to California. In order to know the extent of the problem of how many workers are at risk of injury/illness/fatality and to take steps to prevent such outcomes, there are certain policy initiatives that need to be adopted now.

One of the most important needs is for a comprehensive injury/illness/fatality data system that integrates information reported to California's Division of Labor Statistics and Research and the Workers' Compensation Information System. An independent task force and accompanying staff is needed to design such a system. Electronic records from this integrated system must be accessible to governmental agencies and others as appropriate, meeting stringent privacy considerations. California is unique in the nation in the scope of physician reporting requirements for injury and illness. Unfortunately, since 1992 analysis and publication of this data was terminated due to lack of funding (Worksafe! 1999). The system must ensure that electronic data collection is comprehensive, accurate, timely and available for use for (1) occupational injury and illness prevention activities, (2) epidemiologic and other research, (3) standards development, and (4) Cal-OSHA enforcement. The system should be a comprehensive database of injury, illness and exposure data from such sources as: employers' and doctors' first reports, Log 200 forms from employers, data in the workers' compensation information system, data from the Workers' Compensation Insurance Rating Board, data from the Department of Health Services' surveillance programs, etc. Employers are currently required to provide biological monitoring results if their workers are victims of lead poisoning. Other biological monitoring results should also be required for poisonings related to carbon monoxide, metals, etc. Some have argued that there should be similar reporting requirements for workers with back injuries, which "cause significantly more pain/suffering/income loss/etc. for workers in California than lead poisoning ever will, and yet we are doing nothing about this at the state level" (Rudolph, telephone interview 1999). We should also consider whether results of workplace environmental monitoring for toxic substances should be included in such a comprehensive database. The state Division of Labor Statistics and Research and the Department of Health Services should have adequate staffing and resources to develop and manage this data.

Also needed is an ongoing way to solicit information from workers on the shop floor about their perceptions of the health and safety conditions where they work. The workers and workplaces should remain anonymous, but the information gathered would be helpful in getting an "in the trenches" sense of how conditions are and what needs to be addressed through training

and policy changes. Such a survey could be done annually or biannually as a "Voices from the Shop Floor on Health and Safety" report.

Safety and health professionals who work in this field need more training. A study released this year by the Institute of Medicine concluded that the nation's universities are not producing enough Ph.D.s and M.D.s who specialize in occupational safety and health to teach and train other health and safety professionals (Institute of Medicine 2000). Of course, the medical providers who most often see a worker with an injury or illness actually are family practitioners or internists; medical schools and continuing medical education courses need to be developed to reach these professionals. The report did conclude that there are enough graduates each year with industrial hygiene and nursing specializations. That may be true, but there is a need for these specialists who also have language skills other than English and interpersonal skills so that they can talk to workers to find out about health and safety problems in the workplace. Of the 200-plus Cal-OSHA inspectors, currently only a handful have the needed language skills.

California is one of the few states in the nation that has a requirement that all employers have an injury and illness prevention program which requires: (1) there be a designated person responsible for the program, (2) a system for ensuring employee compliance with the safety rules, (3) a system for communicating health and safety information with employees, (4) procedures (i.e., inspections) to investigate occupational injuries/illnesses, (5) procedures to investigate if injuries/illnesses occur, (6) methods for correction of unsafe/unhealthful conditions, (7) training and instruction for staff in the appropriate language, and (8) records be kept to document compliance for companies with 10 or more employees. Unfortunately, this is the Cal-OSHA standard which is most often violated, according to Cal-OSHA reports. There is a need to put more teeth into this standard, and more resources should be made available for small businesses so they can comply with this standard.

This standard should also contain the requirement that in all workplaces with a certain number of employees there be worker health and safety representatives, and for all employers with a larger number of employees there be employer/worker occupational safety and health committees. The health and safety representatives' task would be to represent the employees on occupational safety and health matters and to work with management to achieve satisfactory health and safety conditions. The representatives would carry out their duties during working hours, while retaining the same employment benefits as usual. They would receive introductory training on how to identify and control hazards in the workplace, and would receive annual refresher training. If the workers and/or their representatives speak a language other than English, materials and trainings would be provided in the language they understand best/feel most comfortable with.

In those places where there is a health and safety committee, labor and management representatives would also receive such introductory training and annual refresher training. The committee would meet at least quarterly, or monthly for employers on Cal-OSHA's high hazard list. The committee would have broad oversight over workplace safety and health, including conducting an annual evaluation of the employer's safety and health program as a whole. It would review the employer's periodic, schedule worksite inspections, conduct its own inspections as needed, recommend corrective actions, keep a list of all action items, and have the authority to stop a work activity if a hazard existed that constituted an imminent danger to life or health. These committees would also have the authority to review/evaluate the injury/illness

recordkeeping system the company institutes and make recommendations for changes if there were underreporting or errors in reporting.

Along with this, there is an urgent need for "whistleblower" protections for California's workers. That is, workers who speak out about health and safety issues need strong protections against employer retaliation. A recent Federal OSHA report criticized the Cal-OSHA program for their abysmal record on this (Cal/OSHA 2000b). Between January 1, 1995 and September 30, 1998, there were 636 cases where workers charged the employer with such discrimination and took their cases to the state Labor Commissioner. Five-hundred-and-thirty-two of these cases were investigated by the Commissioner's office. In only three cases did the Labor Commissioner rule for the worker. Such protections must be there for workers or they will be afraid to speak up as a safety representative, a health and safety committee member, or as someone on the shop floor who identifies a health and safety problem. This protection is the linchpin for workplace health and safety; without it, workers, especially those not protected by a union, put themselves at serious risk of losing their job.

Last, the public needs to be made more aware of the hazards at work and what can be done to reduce such injuries/illnesses/fatalities. There is already a strong, broad-based public consciousness about improving our general environment (i.e., air, water, soil). But, too often bettering the workplace environment is not a consideration. Increased awareness can happen through public awareness campaigns and the issuance of a yearly "report card" on the state of the workplace environment in California. A statewide advisory committee should be convened to recommend what indicators should be used to create such a report card. Currently available statistics should be reviewed, and combined with other new sources such as the "Voices from the Shop Floor" survey suggested earlier in this chapter.

In conclusion, there are a multitude of reasons why one must be skeptical about reports that suggest the workplace is becoming more safe and healthful. More reliable methods for reporting hazards, injuries and illnesses are needed. Without these, it will be difficult to document the extent of the problem in order to build the case for more attention and resources dedicated to this important public health problem. Once the seriousness of the problem is better documented, it will be easier to advocate for more trained health professionals, a greater emphasis on getting employers to implement effective injury and illness prevention programs, requirements for health and safety representatives and committees and much stronger whistleblower protections than we have today.

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CHAPTER 11

WELFARE REFORM AND THE LABOR MARKET OUTCOMES OF WOMEN

DAVID CARD

Introduction

This chapter provides an overview of recent changes in the income support system for low-income families in the State of California, and describes some of the associated changes in the labor market outcomes of women. Although much attention has focused on federally-initiated welfare reform associated with the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA), significant welfare reforms were adopted in California in the 1980s and early 1990s. Moreover, many of the changes associated with PRWORA, such as time limits and mandatory work, have only been partially implemented or have not yet had time to reach their full effect. Other income support programs, in particular the Earned Income Tax Credit, have also changed over the past decade. This rapidly evolving program environment, coupled with the effects of the strong economy, make it very difficult to assess the impact of any single component of welfare reform. Nevertheless, the outcomes of lower-income workers and their families are changing. Welfare caseloads in California fell by 50 percent from January 1996 to early 2000. The fraction of welfare recipients who work has risen from less than 10 percent to over one-third. And after rising sharply in the early 1990s, poverty rates among single-female-headed families have begun to fall. All these changes suggest that cumulative reforms in the income support system is having some effect in California.

I. A Brief Overview of Welfare Programs and Reforms

The U.S. system of income support for families headed by non-disabled and non-elderly individuals includes four main components: cash assistance ("welfare"); Food Stamps; medical insurance (Medicaid); and the Earned Income Tax Credit (EITC).[1] This chapter will ignore the Medicaid program and will concentrate on cash assistance programs, with some limited discussion of Food Stamps and the EITC.[2] A summary of the major reforms in the federally-funded cash assistance welfare system is presented in table 1.[3]

Until 1996, cash assistance for low-income families was provided under the Aid to Families with Dependent Children (AFDC) program. AFDC was conceived in the 1930s as an income replacement program that would allow widows and women whose husbands were absent to stay at home with their children. Consistent with this intention, the program had the feature that benefits were reduced by one dollar for each dollar of earnings or other income received by a participant. With changes in social attitudes toward working mothers, the program was modified in the 1960s to provide incentives for work. The Work Incentive Program introduced child care allowances for mothers who worked and also introduced an "earnings disregard": welfare recipients were allowed to keep the first $30 of earnings each month, and one-third of any additional earnings, without affecting their welfare payments. In the early

1980s, concerns over the cost of the welfare system led to the abolition of the one-third disregard feature for those who had been on welfare four months or longer. Thus, over the last 15 years of the AFDC program, most welfare recipients confronted a 100 percent "tax rate" on any earnings over $30 per month. This feature is widely believed to have contributed to low levels of work activity among welfare recipients.[4]

In 1985 California established a statewide program with the goal of moving welfare participants into the workforce. The "Greater Avenues to Independence," or GAIN program, included three phases: up to two years of basic skills training, followed by assisted job search ("job club"), and ending with a referral to a public sector employment program for those who were unsuccessful in finding work. Participation in GAIN was supposed to be mandatory for adults in two-parent households and for single-parent families with no children under the age of six.[5] Following an established tradition in the state, individual counties were given considerable latitude in the design of their GAIN program. Some counties implemented programs with a greater emphasis on training, while others (including Riverside County) designed programs that emphasized moving to employment as quickly as possible – a strategy that is now known as "work first."[6] Some three years later, the federal government passed legislation establishing the JOBS (Job Opportunities and Basic Skills) program, which required all states to adopt a similar set of strategies. Despite the stipulations of state and federal law for mandatory participation in job search and employment programs, evidence from a variety of sources suggests that the fraction of welfare recipients who actually participated in the GAIN program was far below 100 percent.

A second round of major welfare reforms was initiated in California in the early 1990s under the so-called waivers program which allowed states to apply for exemptions from federal regulations governing the AFDC program. The first California waiver established the Work Pays Demonstration project. This program offered cash bonuses to teenage AFDC parents who finished high school and liberalized the asset limits for AFDC eligibility.[7] Subsequent waivers, approved between 1993 and 1996, introduced a "family cap" (a rule that disallows benefit increases for families that have an additional child); added transitional benefits for mothers who marry; reintroduced the one-third earnings disregard, and expanded the earnings disregard to allow AFDC recipients to earn the difference between their monthly payment and the state need standard (an estimate of the income needed to live above the poverty line) without affecting their benefit amount.

As a result of these changes, by the mid-1990s the California AFDC program provided a relatively strong incentive to work. This is illustrated by the entries in the first two columns of table 2, which show the welfare grant available to a single mother with two children at different levels of earnings between 0 and $1,500 per month.[8] Because of the enhanced earnings disregards introduced in the waivers, a mother who moved from not working to a job earning $500 would lose only $64 of her basic $565 monthly welfare grant. The reduction associated with the change from $500 to $1,000 per month of earnings was larger ($234), but still provided a reasonable incentive for increases in work effort.

It is important to note that although enhanced earnings disregards increase the financial incentive to work for those on welfare, they also reduce the incentive to leave welfare. In the absence of an enhanced disregard, a participant in the AFDC system would lose one dollar for each dollar of earnings in excess of $30 per month. Thus, a single mother with two children who could earn $750 per month would have to leave the welfare system in the absence of an enhanced disregard. As shown in table 2, however, under the California AFDC system in 1997 she would still be eligible for $334 per month, and would presumably stay on welfare. Such comparisons suggest that the introduction of enhanced earnings disregards would be expected to lead to a rise in welfare caseloads but an increase in the work activities of those on welfare (and potentially a fall in the average amount of welfare payments per case).

As shown in the third column of table 2, the financial incentives for work under the old AFDC system in California were even stronger when the effect of the EITC is taken into consideration. Between 1993 and 1996 the benefit rate of the EITC for families with children was substantially increased: by1997 the benefit rate was 40 percent on the first $9,140 of earnings for families with two or more children.[9] Taking account of welfare payments and the EITC, a single mother with two children would have $636 per month more in income if she was able to find a job paying $500 per month than if she did not work.[10]

The EITC also increases the reward to increasing work effort for those who are working part-time: for example, moving from $500 to $1,000 per month in earnings would lead to a $103 per month increase in EITC for a mother with two children.

Unlike the EITC, the Food Stamp program provides a modest disincentive for increasing work effort.[11] The rules of the program imply that a family's Food Stamp allotment is reduced by 24 cents per dollar of earnings, and by 30 cents per dollar of income from other sources (including cash welfare payments but not the EITC). The net effect of these rules is illustrated in the fourth column of table 2. Taking account of cash welfare payments, the EITC, and Food Stamps, a single mother with two children had a very strong financial incentive to move from zero earnings to some modest level of earnings ($500 or $750 per month), but relatively weaker incentives to increase earnings from $750 per month to $1,000 or $1,500.

In August 1996 the federal government passed the Personal Responsibility and Work Opportunity Reconciliation Act. As noted in table 1, the Transitional Aid for Needy Families (TANF) program established by PRWORA represented a substantial departure from AFDC. TANF is a system of block grants to the states, rather than an entitlement program. Under PRWORA the states are given considerable freedom in the design and operation of their welfare programs, and also reap the benefits of any saving in welfare costs. The new law established a timetable for states to meet a series of target participation rates in work programs, with financial penalties for states that do not meet the targets. It also established a maximum five year time limit on TANF participation for most welfare recipients, although states were free to choose a lower limit.

California's TANF program, known as CalWORKS, was passed into law a year later. Relative to other state's welfare reform programs, some key features of CalWORKS are more generous: for example, the maximum time limit is five years, and the maximum sanction that can be imposed for noncompliance with work requirements is the loss of the adult portion of the TANF grant (rather than the entire grant). CalWORKS also maintained the relatively generous benefit levels of the previous California AFDC program (the sixth highest in the country).[12] Like the earlier GAIN program, CalWORKS gives the counties considerable freedom in the design of their welfare to work programs. Paralleling the federal law, it establishes specific goals for work participation (adults in single parent families must participate 20 hours per week in work or training effective January 1998, rising to 32 hours by July 1999; one adult in two parent families must participate 35 hours per week).[13] Finally, CalWORKS creates strong financial incentives for the counties to reduce caseloads and cut welfare costs: 75 percent of any savings due to program exits to long-term employment or rises in the earnings of participants accrue to the counties. CalWORKS also allows counties to offer "diversion" payments: lump sum amounts that are paid to potential applicants in lieu of entering the welfare role. Three-quarters of any savings in welfare costs arising from diversion programs are also reaped by the counties.

The impact of the switch from AFDC to CalWORKS on the cash welfare benefits available to a typical single mother is illustrated in the four right-hand columns of table 2. Compared to the AFDC system, CalWORKS provides a slightly weaker work incentive at low levels of earnings, and a slightly stronger work incentive at high levels of earnings. On balance, however, the differences between payments available under CalWORKS and the earlier program are small. Thus, one would not expect the switch in financial incentives to have much effect on the labor market outcomes of single mothers or other low-income families.

Other features of CalWORKS – such as time limits and work requirements – presumably will have a bigger impact on welfare participation rates and the labor market activities of those in the welfare system. However, these impacts are not likely to be fully realized until some time in the future, and certainly cannot be observed in the data that are available so far, which mainly cover the period up to 1998 (see below). The reason is that the process of welfare reform in California only got started in late 1997. Given the complexity of reforms, and in particular the massive change in the mission of the county welfare agencies that is mandated by CalWORKS, it will take several years to fully implement the new program. The available evidence suggests that participation rates in mandated welfare-to-work programs in the first year of CalWORKs were relatively low (Zellman et al. 1999) and that procedures for

sanctioning nonparticipants were still being developed as of 1999.[14] Moreover, CalWORKS specifies that the "clock" for assessing time limits started on January 1, 1998. Thus, the full impact of time limits will not be seen until 2002.[15]

II. Changes in Labor Market and Program Participation in California

This section turns to an examination of labor market outcomes and program participation rates among individuals likely to be affected by welfare reform. The main data for this analysis are drawn from the March Current Population Survey (CPS) microdata files for 1980-1999, covering the period from 1979 to 1998.[16] For comparative purposes, most of the tabulations are presented for California and for the U.S. as a whole. To help increase the accuracy of the analysis, and to simplify the presentation, results are presented for three-year averages, rather than for individual calendar years.

As background for the analysis, table 3 presents some basic descriptive information on demographic trends in California and the U.S., and some data on the evolution of average wages for all workers in the state and the country as a whole. The upper panel of the table shows the fraction of youth in the adult population, the average years of education of the adult population, and the fractions of high school dropouts and college graduates. Nationwide and in California the fraction of young people in the adult population fell from the early 1980s to the mid-1990s, and has recently stabilized. The relative trends in education are more different between the state and the country as a whole: although education levels have been rising, and the fraction of dropouts has been falling, California has moved from being slightly above-average in terms of years of schooling or the fraction of high school completers to slightly below-average. The change in the relative fraction of high school dropouts is especially large: in the early 1980s California had only 85 percent as many dropouts as the U.S. while by the late 1990s it had 110 percent of the national average.

One explanation for the rise in the fraction of dropouts in California is the steady inflow of relatively poorly educated immigrants from Mexico and Central America. While the CPS did not collect immigrant origin data until very recently, an indication of this phenomenon is provided by the data on the fraction of Hispanics in the middle panel of table 3. During the past two decades the fraction of Hispanics has risen by 12 percentage points in California relative to the U.S. as a whole. Since Hispanics have about 2.8 fewer years of education than non-Hispanics, and a 30 percentage point higher probability of being high school dropouts, this trend can explain about one-half of the relative rise in the fraction of dropouts in California, and two-thirds of the relatively fall in mean years of education.[17] California also differs from the rest of the country in having a relatively high and rising fraction of Asians, many of whom are immigrants too.

The bottom panel of table 3 shows average hourly wages for all workers, and the fractions of workers earning up to $6.00 per hour (in inflation-adjusted 1997 dollars), from $6.01 to $10.00 per hour, and more than $10.00 per hour. Relative to the rest of the country, average hourly wages are about 10 percent higher in California, and this differential has been quite stable. The stability of the average, however, hides the fact that the relative fraction of workers at the low end of the labor market (earning $6.00 or less per hour) has risen in California relative to the rest of the country, especially during the 1990s. Although not reported in the table, measures of the *inequality* of wages have similarly trended upward in California relative to the U.S. Part of the explanation for this trend is the growing presence of poorly-educated immigrants, who tend to earn less than other workers.

Another important piece of background information is presented in figure 1, which shows annual average unemployment rates in California and the nation. Over the period from 1980 to 1990, the two unemployment rates rose and fell more-or-less in tandem. During the 1990s, however, the rise in unemployment was far greater in California, and even by 1999 California still had a one percentage point higher unemployment rate. The more severe recession and continuing unemployment gap has a potentially important impact on the comparison of welfare caseloads and labor market outcomes in California versus the U.S. Since job opportunities for younger and less educated workers are highly sensitive to business cycle conditions (see Hoynes 2000), one would expect welfare caseloads to have

risen more in the early 1990s, and to have fallen less in the late 1990s in California than in other states.

A third background factor that is potentially important for explaining welfare participation and the labor market outcomes of women is the fraction of women who live in different family relationships. Welfare participation rates and poverty rates are much lower for women who live with a husband than for those who are single family heads.

In recognition of this fact, one of the goals of recent welfare reforms has been to reduce the fraction of families headed by lone mothers, both by encouraging higher marriage rates and by discouraging births to single women. Table 4 shows the family status of women age 16-59 in California and in the U.S. as a whole over the 1979-98 period. Interestingly, the family relationship distributions have been relatively stable in California, while they have changed somewhat more in other states. The fraction of single mothers, however, has been relatively steady at around 10 percent in both California and the country as a whole. Thus, differences in welfare participation rates between California and other states are not mainly attributable to differences in family structure. Tables 5, 6, 7, and 8 present a variety of information on the labor market outcomes, welfare participation, and poverty status of women ages 16 to 59 in California and the U.S. Table 5 presents results for all women, while the subsequent tables present parallel results for married women with children (table 6), married women without children (table 7), and single mothers (table 8). The formats of the tables are similar: the upper panel in each table presents data on employment and hours, the middle panel presents data on earnings and hourly wages, and the bottom panel presents data on welfare and food stamp recipiency, total welfare receipts, and poverty status.

An examination of the employment and hours data for all women in the upper panel of table 5 points to two main conclusions. First, the fraction of women who work has been relatively stable in California, and rising elsewhere. Between the early 1980s and the late 1990s, the employment rate of California women fell from somewhat above the national average to about 10 percent below the national average, with most of the relative decline occurring in the 1980s. Second, the fraction of women working full-time, and average annual hours, has risen in both California and other states.[18] However, the rise was faster outside California, so that by the end of the 1990s California women's annual hours were about 8 percent below the national average. Again, most of the relative decline occurred between 1979-81 and 1991-93.

Comparisons of the changes in employment and hours for the different family groups in tables 6-8 suggest that the *relative* trends in employment and hours of work in California have been similar for married women with children, married women without children, and single mothers. Across all three groups of women, the annual hours of Californians fell from a level just above the national average in the early 1980s to a level 8-10 percent below the national average in 1997-98. The similarity of the relative trends for the three groups suggests that welfare reform and changes in income support programs are unlikely explanations for the relatively slow growth in the labor supply of California women. In particular, since married women without children have extremely low welfare participation rates, their behavior is only marginally affected by welfare reform.

The middle panels of tables 5-8 show average annual earnings (in inflation-adjusted dollars),[19] the fractions of workers earning $5,000 per year or less, and $5,001-10,000 per year, and the average hourly wages of workers. Like average annual hours, average annual earnings of women have been rising over the past two decades, with a slower rate of growth in California. In the early 1980s California women had about 17 percent higher average earnings than the national average. By the end of the early 1990s, however, women in other states had caught up. Interestingly, the decline in the *relative* annual earnings was not due to a relative change in the hourly wages of California women: throughout the 1980s and 1990s California women had 10 percent higher average wages than the national average. Rather, the relatively slower growth in annual earnings can be attributed to the slower growth in hours of work. As with the hours changes, the changes in the relative earnings for Californians are quite similar for married women with children, married women without children, and single mothers. Moreover, all three groups show a steady 10-15 percent higher average wage in California than the U.S. as a whole.

The first two columns in the bottom panel of table 5 show the fractions of women age 16-59 who

reported receiving any welfare during the year in California and the nation. For the U.S. as a whole welfare recipiency rates were fairly stable over the 1980s, rose in the early 1990s, and then fell dramatically in the late 1990s. A similar pattern is evident in California, although the average fraction of welfare recipients is consistently higher in California. Moreover, the decline in welfare participation in the later 1990s was much smaller in California, leading to a sharp rise in the relative welfare participation rate. An important caveat to this conclusion is that the CPS data underlying these tabulations are only available up to 1998.[20] In 1999, welfare caseloads fell much more rapidly in California than in other states. This fact is illustrated in figure 2, which shows the numbers of welfare recipients in California and other states relative to the number in January 1996 (the last year under the old AFDC welfare system). Between January 1996 and January 1999, the number of welfare recipients fell by 30 percent in California but 45 percent in the rest of the states. During 1999, however, California effectively "caught up" with other states: by December 1999, the number of welfare recipients was about one-half of the January 1996 level.

The welfare participation rates for married women with children and single mothers in tables 6 and 8 show a similar pattern to the data for all women, although the average levels of welfare participation are lower for married women with children, and much higher for single mothers. The patterns of welfare participation for single mothers are particularly important for understanding trends in welfare since single mothers account for 75 percent of welfare recipients in California, and an even higher fraction (85 percent) of welfare recipients in the U.S. as a whole.[21] Over the 1980s single mothers had roughly 10 percent higher welfare participation rates in California than the national average. In the early 1990s national welfare participation rates of single mothers surged, presumably as a result of the recession. Consistent with the more severe downturn in California and the relatively sluggish recovery, the rise between 1988-90 and 1991-93 was larger in California, and the decline between 1991-93 and 1994-96 was smaller. By 1997-98, the fraction of single mothers who reported receiving any welfare over the year had fallen to 18 percent nationally, but remained at 25 percent in California.

Although comparisons of annual welfare participation rates are informative, they do not reflect changes in the intensity of participation (i.e., the number of months on welfare). A more comprehensive measure of welfare usage is the amount of benefits collected.[22] The annual welfare benefit amount data in tables 5-8 show patterns that are generally similar to the simpler participation measures. In particular, average welfare benefits were higher in California than the national average throughout the 1980s, and did not decline as quickly in the late 1990s, leading to a rise in the relative amount of welfare benefits collected by California women.

In contrast to the major reforms to the cash welfare system introduced by PRWORA, the structure of the Food Stamp program has been fairly stable. Moreover, people who leave the welfare roll are still eligible for food stamps, provided that their income is below a threshold that has been roughly constant over the 1990s. These observations suggest that changes in food stamp participation should primarily reflect changes in relative economic conditions, rather than changes in eligibility rules.[23] In view of this, it is interesting to examine trends in food stamp participation by women in California and in the U.S. as a whole. Food stamp participation rates for all women in table 5 show a modest decline nationally between 1988-90 and 1997-98 (from 8.6 to 8.0 percent of all women) and a rise in California (from 7.0 to 8.4 percent). Similar relative trends are seen for married women with children, for married women without children, and for single mothers. In each case, food stamp participation rates rose in California between the late 1980s and late 1990s, but fell elsewhere. These relative changes suggest that the fraction of lower-income families has risen in California relative to other states, and that *even in the absence of welfare reform* participation rates in cash welfare programs would have fallen more slowly in California than in other states. Two potential explanations for the relative rise in the fraction of low-income families in California are demographic factors and macroeconomic trends. On one hand, California has a rising fraction of families headed by relatively poorly-educated immigrants, who earn less than other families and are therefore more likely to need income and in-kind assistance. On the other hand, the more severe recession in California in the early 1990s and the slower subsequent recovery presumably contributed to slower income growth in the state.

The final set of numbers in the bottom panel of tables 5-8 are poverty rates: the fractions of women whose family income falls below the federal poverty threshold for the appropriate family size. In the early 1980s, California had poverty rates that were slightly below the national average for single mothers and married women with no children, and slightly above the national average for married women with children. Poverty rates are highly counter-cyclical: consequently, poverty rates in California and the nation rose in the early 1980s, fell during the expansion from 1984 to 1989, rose again in the early 1990s, and have been falling since. Over the entire period, however, the *relative* poverty rate in California has been gradually rising. The trend for married women with children is especially remarkable: whereas poverty rates for this group in 1997-98 were just below the levels of 1979-81 nationally, in California they had risen from 8.1 to 11.8 percent. While some of this relative rise may reflect the slower recovery from the 1990-92 recession, it seems likely that much of the rise is attributable to the growing fraction of California workers with relatively low wages (see table 3). This trend, in turn, is at least partially explained by the rising fraction of California families headed by poorly-educated immigrants.

A final issue of much interest is the trend in labor market outcomes for those who participate in welfare. A major goal of the welfare reforms adopted in the 1980s and 1990s, including the California GAIN program, the JOBS program, and PRWORA, was to get welfare recipients into employment. As noted in the discussion of table 2, changes in California's AFDC program in the early 1990s, coupled with the expansion of the EITC, introduced substantial financial work incentives for people on welfare. Under the new TANF program, these financial incentives have remained, and additional non-financial incentives have been introduced by mandatory work requirements.

Table 9 presents a variety of labor market outcomes for single mothers who were "full-year" welfare recipients in the Current Population Survey between 1988 and 1998.[24] The first two columns of the table report the fraction of single mothers who received welfare at any time during the year who received it for all months. This fraction ranges from 73 to 86 percent, suggesting that full-year recipients account for most of the single-mother welfare recipients recorded in the CPS. Indeed, since single mothers make up 75-80 percent of all welfare recipients, and full-year recipients account for three-quarters of all single-mother recipients, single mothers who were on welfare all year represent about 60 percent of all welfare participants during the year, and an even higher fraction of the monthly caseload.

Three indicators of work activity are reported in table 9: the fraction of full-year recipients who worked at any time during the year, average weeks of work, and average annual earnings. All three indicators show dramatic rises in California and in the country as a whole over the 1990s. Moreover, the rises are somewhat bigger in California than other states: for example, average weeks rose by 8.5 in California, but 7.3 in the U.S., while average earnings rose by $2,148 (in 1997 dollars) in California but only $1,507 nationally. These results point to two important conclusions. First, work effort by welfare recipients is on the rise. Second, work effort by California welfare recipients is rising somewhat faster than in other states. In view of the slower economic recovery in California, and anecdotal evidence that the implementation of formal work requirements under TANF has proceeded more slowly in California than in many other states, this is rather surprising, and suggests that the enhanced work incentives in the California welfare system are having a strong effect.[25]

III. Summary

This chapter has summarized recent welfare reforms in California, and used data from the Current Population Survey to examine trends in the labor market outcomes and program participation of female family heads in California and in other states. California's system of cash assistance for families with dependent children has been evolving steadily over the past two decades. During the 1980s the GAIN program introduced job search requirements. In the early 1990s the financial incentives for work were substantially enhanced by innovations under the waivers program and the expansion of the federal Earned Income Tax Credit. Finally, the 1996 Personal Responsibility and Work Opportunity Reconciliation Act and the 1997 CalWORKS legislation have substantially changed the goals and operation of the welfare system, with a devolution of authority to the counties and the introduction of time limits and targets for work activity.

A comparative analysis of labor market outcomes and program participation trends in California versus the nation points to a number of conclusions. First, the relative composition of the California population is changing. In the early 1980s California had a higher average education than the rest of the country, and a lower fraction of high school dropouts. With the continuing rise in the fraction of relatively poorly educated immigrants in the California population, this relative advantage has steadily eroded. Associated with the decline in relative education levels is a rise in the fraction of workers earning relatively low wages. Since individuals with low education are more likely to experience difficulties in the labor market, this trend would be expected to lead to a relative rise in the fraction of welfare participants in California.

Second, the California economy underwent a more serious recession than other states in the early 1990s, and recovered more slowly. This by itself would be expected to lead to higher rates of program participation, and slower reductions in welfare caseloads. Moreover, California was slower to implement certain features of welfare reform, such as sanctions for those who do not participate in work programs, than some other states. This too could account for slower relative declines in welfare caseloads. An examination of welfare participation rates up to 1998 suggests that California did not see as big declines as other states. However, during 1999 California's welfare caseload declined very rapidly. Comparing caseloads between January 1996 (just before PRWORA) and December 1999, the declines in California are fairly similar to the declines in the other states.

Third, California has adopted relatively generous financial incentives for work for those on welfare. Coupled with changes in the EITC, the welfare system provides strong economic incentives to move from non-work to work. Consistent with these incentives, the available evidence suggests that the fraction of welfare recipients who work has risen somewhat faster in California than in other states, even though California has lagged behind many other states in implementing non-financial incentives for work.

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Table 1: Welfare Reform Chronology

1935 Title IV of 1935 Social Security Act established Aid to Families with Dependent Children (AFDC), an entitlement program for single mothers with costs split between the state and federal governments. Key program parameters set by federal government; states allowed to determine payment levels.

1967 Work Incentive Program (WIN) established. Funded child-care for working parents and established an earnings disregard ($30 plus one-third of additional earnings).

1981 Omnibus Budget Reconciliation Act (OBRA) allowed states to experiment with work requirement for benefit eligibility. Subsequent changes in Social Security Act allow Secretary of Health and Human Services to grant waivers from federal AFDC rules. Eliminated one-third earnings disregard for most cases.

1985 California GAIN program. Designed to move welfare recipients into the work force through program of basic skill training, job search ("job clubs") and public service employment.

1988 Family Support Act (FSA) established Job Opportunities and Basic Skills (JOBS) training program. Required participation of two parent families and mothers with older children in work activities. GAIN is designated at California's JOBS program.

1992 California Assistance Payments and Work Pays Demonstration Project ("Work Pays") waiver program. Re-introduced one-third earnings disregard. Subsequent waivers introduce "family cap" (no raise in AFDC payments for those who have a child); transitional child care for newly married welfare leavers; expanded disregard ("fill-the-gap" disregard allows disregard of earnings up to the difference between AFDC benefit and need standard); CalLearn program for teen parents who had not completed high school.

1995 Changes in GAIN legislation. Shift in focus to work-first approach, with tightening of exemptions from work requirements.

1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) passed. Ends AFDC entitlement program and replaces it with Transitional Aid to Needy families (TANF) block grants. Under "maintenance of effort" (MOE) provision, states are required to maintain spending at fraction of pre-reform levels. Introduction of work requirements – most recipients are required to participate in work programs, with a series of rising targets for the state-wide work participation rates. Introduction of time limits: federal maximum of five years of welfare recipiency. States are allowed to introduce shorter limits. States allowed considerable freedom in design of welfare program, including use of diversion payments, sanctions for non-compliance, and rules for exemptions from work requirements and time limits.

1997 CalWORKs legislation passed August 1997. Set lifetime five year time limit, with clock to start in January 1998, and 18-month time limit for continuous receipt of TANF after initial assessment process. Sanctions apply only to adult portion of family grant. Responsibility for design and operation of diversion and welfare-to-work (WTW) programs given to counties. Benefit levels equal to rates under previous AFDC program. Earnings disregard under TANF set to $225 plus one-half of additional earnings.

Table 2: Comparison of Welfare and Other Transfers Pre- and Post- CalWORKS for a Single Mother with Two Children

	Under Old (AFDC) System:				Under New (TANF) System:			
Earnings per Month	**Welfare**	**EITC**	**Food Stamps**	**Total**	**Welfare**	**EITC**	**Food Stamps**	**Total**
0	565	0	298	863	565	0	298	863
250	565	100	238	1,153	553	100	242	1,145
500	501	200	197	1,398	428	200	219	1,347
750	334	300	187	1,571	303	300	197	1,550
1,000	167	303	177	1,647	178	303	174	1,655
1,250	0	251	167	1,668	53	251	152	1,706
1,500	0	107	0	1,607	0	107	0	1,607

Notes: Program amounts are calculated for 1997. All entries are estimates, assuming that family is eligible for the maximum dependent care deduction for food stamps, has no other income sources (e.g., no child support income), and that asset limits for welfare and food stamp eligibility are satisfied.

Table 3: Demographic Characteristics and Labor Market Outcomes in California versus the United States, 1979-98

	Percent Age 16-24			Average Education			Percent High School Dropouts			Percent College Grads		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	21.6	21.8	99	12.2	11.8	103	27.2	32.1	85	18.1	14.6	124
1982-84	20.4	20.3	100	12.4	12.0	103	25.6	29.0	88	19.9	16.3	122
1985-87	18.7	18.5	101	12.4	12.2	102	24.9	27.0	92	20.3	17.3	118
1988-90	17.7	17.0	104	12.3	12.3	100	25.5	25.1	102	21.5	18.7	115
1991-93	16.7	16.2	103	12.4	12.5	100	21.9	21.0	104	21.3	19.2	111
1994-96	16.3	16.2	101	12.5	12.6	99	22.4	20.4	110	22.7	20.6	110
1997-98	17.3	16.3	106	12.6	12.7	99	21.1	19.2	110	23.0	21.7	106

	Percent Hispanic			Percent Black Non - Hispanic			Percent Asian and Other Races			Percent White Non-Hispanic		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	14.8	5.2	283	7.6	10.6	72	6.7	2.2	308	71.0	82.1	87
1982-84	17.0	5.8	292	7.2	10.8	67	8.2	2.5	321	67.7	80.8	84
1985-87	20.4	7.0	292	6.4	10.9	59	8.6	2.9	296	64.6	79.2	82
1988-90	22.7	7.5	301	6.2	11.2	55	9.6	3.2	300	61.5	78.1	79
1991-93	25.4	8.4	303	5.8	11.4	51	10.2	3.5	290	58.6	76.8	76
1994-96	26.7	9.6	279	6.3	11.5	55	11.4	3.9	291	55.6	75.0	74
1997-98	26.7	10.3	261	6.3	11.6	54	13.0	4.5	290	54.0	73.7	73

Percent With Hourly Wage:

	Average Hourly Wage			Up to $6.00 / Hour			$6.01-10.00 / Hour			Over $10.00 / Hour		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	15.0	13.7	109	11.1	13.6	82	25.5	28.7	89	63.4	57.7	110
1982-84	15.1	13.7	110	13.0	16.0	81	24.6	27.4	90	62.4	56.6	110
1985-87	15.7	14.1	111	14.0	16.2	86	22.2	25.4	87	63.7	58.3	109
1988-90	15.7	14.2	111	13.0	15.6	83	23.8	25.8	92	63.2	58.6	108
1991-93	15.5	14.0	111	14.1	16.5	86	23.1	25.8	89	62.8	57.7	109
1994-96	15.5	14.4	108	15.7	16.3	97	23.4	26.3	89	60.9	57.5	106
1997-98	16.1	15.1	107	15.2	14.8	102	23.8	25.8	92	61.0	59.4	103

Notes: All data are derived from tabulations of the March Current Population Survey (CPS). Dollar amounts are expressed in inflation-adjusted 1997 dollars.

Table 4: Family Status of Women Age 16-59 in California versus the United States, 1979-98

	Percent Married with Children			Percent Married without Children			Percent Single Mothers			Percent Not Family Heads		
	CA	**US**	**Ratio**	**CA**	**US**	**Ratio**	**CA**	**US**	**Ratio**	**CA**	**US**	**Ratio**
1979-81	33.5	36.2	93	21.7	23.0	94	10.3	9.6	107	34.5	31.2	111
1982-84	33.0	34.6	96	21.6	23.4	92	10.2	10.6	96	35.2	31.4	112
1985-87	33.5	34.0	99	21.3	23.3	91	10.2	10.9	94	34.9	31.8	110
1988-90	32.3	33.1	98	20.8	23.5	89	11.1	11.2	99	35.7	32.3	111
1991-93	33.5	32.4	103	21.3	23.3	91	12.0	12.1	100	33.1	32.2	103
1994-96	33.3	31.6	105	20.7	23.1	90	12.4	12.2	101	33.6	33.1	102
1997-98	31.7	30.8	103	19.9	22.8	87	11.6	11.8	98	36.8	34.6	106

Note: Women who are not family heads include those who live alone, and those who live in a family with parents or other relatives.

Table 5: Relative Labor Market Outcomes, Welfare Participation, and Poverty: Women Age 16-59 in California versus the United States, 1979-98

	Percent Employed During Year			Percent Full-Time All Year			Percent Part-Time All Year			Average Annual Hours		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	66.6	65.6	102	31.6	31.0	102	7.2	7.5	96	1,037	997	104
1982-84	65.3	66.1	99	33.1	33.3	99	8.4	8.4	100	1,049	1,035	101
1985-87	67.7	69.6	97	36.3	36.9	98	8.5	8.8	96	1,120	1,128	99
1988-90	67.5	71.4	94	37.0	39.6	93	8.4	9.1	93	1,152	1,197	96
1991-93	64.5	71.1	91	36.5	40.5	90	8.8	9.5	93	1,116	1,212	92
1994-96	65.4	72.5	90	37.7	41.8	90	9.7	9.7	99	1,144	1,242	92
1997-98	66.9	73.0	92	39.2	43.7	90	10.3	10.1	102	1,180	1,277	92

	Average Annual Earnings			Percent of Earners with Annual Earnings: $1-5000/Year			$5001-10000/Year			Average Hourly Wage		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	11,680	9,975	117	21.6	24.9	87	14.9	15.9	94	11.8	10.6	112
1982-84	12,075	10,677	113	20.8	24.3	86	14.4	14.8	97	12.2	10.8	113
1985-87	13,816	12,324	112	19.7	22.8	87	13.4	14.2	94	12.8	11.4	113
1988-90	14,582	13,501	108	17.8	20.6	86	14.2	14.0	102	13.4	11.8	113
1991-93	14,191	13,814	103	18.1	19.7	92	12.9	13.7	94	13.6	12.0	113
1994-96	14,908	14,730	101	17.1	18.5	93	14.2	14.0	101	13.6	12.3	110
1997-98	16,098	15,958	101	17.1	17.8	96	14.1	13.6	104	14.0	12.8	109

	Percent Received Welfare During Year			Percent Received Food Stamps During Year			Average Annual Welfare Amount			Percent Poor		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	5.3	4.3	125	7.6	9.5	80	381	252	151	12.0	12.8	94
1982-84	4.8	4.2	115	7.3	9.7	76	355	231	154	14.6	15.3	96
1985-87	4.7	4.3	110	5.3	8.6	61	357	231	154	13.6	14.3	95
1988-90	5.1	4.2	121	7.0	8.6	82	380	212	179	14.6	13.8	106
1991-93	6.2	5.0	125	9.9	11.0	91	417	230	181	18.2	15.4	118
1994-96	6.3	4.3	148	10.2	10.6	97	409	194	211	17.6	15.0	117
1997-98	4.2	2.8	150	8.4	8.0	105	221	109	202	16.9	14.0	121

See note to table 3. Welfare amounts include AFDC and TANF – see text.

Table 6: Relative Labor Market Outcomes, Welfare Participation, and Poverty: Married Women Age 16-59 with Children in California versus the United States, 1979-98

	Percent Employed During Year			Percent Full-Time All Year			Percent Part-Time All Year			Average Annual Hours		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	58.9	58.8	100	23.8	23.7	100	7.3	8.3	88	862	849	102
1982-84	57.5	60.3	95	25.5	26.8	95	9.3	9.5	97	880	909	97
1985-87	61.4	65.0	94	29.5	31.0	95	9.1	10.4	88	973	1,019	95
1988-90	61.5	67.5	91	29.2	33.7	87	9.5	10.7	89	997	1,094	91
1991-93	59.4	68.2	87	30.3	36.1	84	9.3	11.2	83	989	1,137	87
1994-96	59.7	69.9	85	33.1	38.1	87	9.8	12.0	82	1,025	1,177	87
1997-98	61.5	70.3	87	34.7	40.0	87	9.9	11.6	85	1,079	1,214	89

	Average Annual Earnings			Percent of Earners with Annual Earnings: $1-5000/Year			$5001-10000/Year			Average Hourly Wage		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	9,540	8,183	117	23.3	26.5	88	16.0	18.0	89	12.1	10.8	113
1982-84	9,991	9,165	109	21.8	24.6	89	15.7	16.8	93	12.6	11.1	114
1985-87	11,687	10,998	106	20.1	22.4	90	14.8	15.7	94	13.1	11.9	111
1988-90	12,188	12,191	100	18.3	19.9	92	16.4	15.3	107	13.8	12.2	113
1991-93	12,443	13,044	95	17.7	18.6	95	14.3	14.5	99	14.0	12.6	111
1994-96	13,713	14,583	94	15.9	16.1	99	14.6	14.4	102	14.2	13.3	107
1997-98	16,166	15,983	101	16.1	15.5	103	14.2	13.9	103	15.2	13.8	110

	Percent Received Welfare During Year			Percent Received Food Stamps During Year			Average Annual Welfare Amount			Percent Poor		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	3.0	1.7	175	5.7	6.5	87	197	87	225	8.1	7.5	107
1982-84	3.1	1.6	188	6.6	7.1	93	221	83	268	11.0	9.9	111
1985-87	2.8	1.6	173	4.6	5.7	81	192	80	238	10.4	8.3	126
1988-90	3.6	1.7	206	5.3	5.3	100	260	84	310	10.2	7.6	134
1991-93	3.8	2.1	177	7.9	7.2	110	247	100	247	13.7	8.8	155
1994-96	4.6	2.0	235	8.2	6.5	127	278	92	302	13.8	8.1	170
1997-98	2.4	1.0	236	6.3	4.4	142	148	47	318	11.8	7.2	165

Note: see note to table 3.

Table 7: Relative Labor Market Outcomes, Welfare Participation, and Poverty: Married Women Age 16-59 without Children in California versus the United States, 1979-98

	Percent Employed During Year			Percent Full-Time All Year			Percent Part-Time All Year			Average Annual Hours		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	64.2	64.9	99	36.2	38.2	95	7.4	7.4	99	1,121	1,133	99
1982-84	64.1	65.6	98	38.1	40.2	95	8.0	8.2	97	1,146	1,168	98
1985-87	67.4	68.6	98	41.8	43.5	96	8.3	8.6	96	1,241	1,253	99
1988-90	69.0	70.6	98	43.5	47.5	92	8.5	8.6	99	1,289	1,338	96
1991-93	65.8	71.9	92	44.8	49.2	91	9.2	9.4	98	1,298	1,381	94
1994-96	70.1	73.4	96	46.9	49.7	94	11.0	9.2	120	1,371	1,405	98
1997-98	69.6	73.6	95	46.8	51.6	91	12.6	9.6	131	1,368	1,438	95

	Average Annual Earnings			Percent of Earners with Annual Earnings: $1-5000/Year			$5001-10000/Year			Average Hourly Wage		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	12,770	11,649	110	15.2	14.8	103	13.9	14.3	98	12.6	11.2	112
1982-84	13,552	12,405	109	14.4	14.6	98	13.6	13.5	100	12.8	11.4	112
1985-87	15,871	14,272	111	12.6	14.1	89	11.3	12.6	90	14.0	12.2	114
1988-90	17,608	15,750	112	11.6	11.6	100	10.9	11.7	93	14.6	12.7	115
1991-93	17,284	16,491	105	10.7	10.6	100	10.6	11.8	89	15.1	13.0	116
1994-96	19,001	17,420	109	9.4	10.2	92	12.0	11.7	103	14.5	13.1	111
1997-98	19,346	19,079	101	9.1	9.0	101	11.5	10.9	105	15.4	13.8	112

	Percent Received Welfare During Year			Percent Received Food Stamps During Year			Average Annual Welfare Amount			Percent Poor		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	0.4	0.2	226	1.1	2.2	50	29	14	204	3.6	3.9	93
1982-84	0.3	0.2	175	1.5	2.3	62	6	11	55	4.5	4.9	93
1985-87	0.2	0.2	99	0.6	1.8	32	17	13	134	3.3	4.3	76
1988-90	0.2	0.2	89	1.0	1.8	56	28	12	245	3.9	3.9	99
1991-93	0.4	0.3	123	2.1	2.5	86	32	15	212	5.6	4.1	136
1994-96	0.3	0.2	107	2.4	2.4	101	22	13	174	5.3	4.0	130
1997-98	0.3	0.1	181	1.2	1.5	80	11	7	159	3.6	3.6	100

Notes: see note to table 3.

Table 8: Relative Labor Market Outcomes, Welfare Participation, and Poverty: Single Mothers Age 16-59 in California versus the United States, 1979-98

	Percent Employed During Year			Percent Full-Time All Year			Percent Part-Time All Year			Average Annual Hours		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	68.9	67.1	103	37.6	36.5	103	4.6	4.7	99	1,149	1,099	105
1982-84	62.7	63.1	99	35.3	34.9	101	5.3	5.0	106	1,030	1,027	100
1985-87	62.2	65.6	95	36.5	36.5	100	5.8	5.2	111	1,052	1,078	98
1988-90	59.8	68.0	88	35.4	38.7	91	4.8	5.3	91	1,053	1,140	92
1991-93	60.0	66.7	90	33.5	37.2	90	7.0	6.3	111	994	1,109	90
1994-96	63.0	71.6	88	36.5	41.3	89	7.5	6.6	113	1,087	1,213	90
1997-98	70.1	76.7	91	40.1	45.7	88	7.5	7.5	100	1,191	1,320	90

	Average Annual Earnings			Percent of Earners with Annual Earnings: $1-5000/Year			$5000-10000/Year			Average Hourly Wage		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	13,084	11,069	118	16.5	19.1	86	13.7	14.6	93	11.7	10.2	114
1982-84	11,735	10,329	114	16.8	21.0	80	14.1	14.1	100	11.6	10.3	113
1985-87	12,717	11,257	113	18.7	21.7	86	11.3	14.1	80	12.3	10.5	118
1988-90	12,766	11,796	108	16.5	20.6	80	13.7	15.2	90	13.0	10.6	122
1991-93	11,700	11,512	102	20.6	20.9	99	14.8	15.7	94	12.1	10.6	114
1994-96	12,686	12,756	99	16.5	20.1	82	16.7	15.9	105	12.3	10.8	114
1997-98	14,089	14,038	100	19.7	19.2	103	13.5	16.6	82	12.1	11.0	110

	Percent Received Welfare During Year			Percent Received Food Stamps During Year			Average Welfare Amount			Annual Percent Poor		
	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio	CA	US	Ratio
1979-81	34.4	31.1	110	32.2	37.9	85	2,522	1,885	134	38.9	46.5	83
1982-84	33.7	31.0	109	30.7	38.1	81	2,530	1,682	150	47.3	53.4	89
1985-87	32.5	30.8	106	25.8	36.7	70	2,530	1,632	155	47.9	52.7	91
1988-90	30.5	28.7	106	28.5	36.1	79	2,316	1,406	165	49.0	50.2	98
1991-93	34.8	30.7	114	37.4	41.6	90	2,421	1,401	173	53.0	52.2	102
1994-96	32.1	25.3	127	36.4	38.6	94	2,092	1,116	188	46.4	48.2	96
1997-98	25.0	17.7	141	34.1	32.0	106	1,282	667	192	48.7	45.5	107

Note: see note to table 3.

Table 9: Characteristics of Single Mothers Who Received Welfare in All 12 Months of the Year in California and the United States, 1988-98

	Percent of Welfare Recipients Who Receive Benefits in All Months		Labor Market Outcomes of Full-year Recipients					
			Percent Work		Average Weeks		Average Earns	
	CA	US	CA	US	CA	US	CA	US
1988-90	72.8	76.9	14.8	19.3	4.2	4.6	664	703
1991-93	78.3	78.6	20.7	21.1	5.6	5.4	855	865
1994-96	85.5	80.0	27.3	29.5	8.3	8.3	1,641	1,596
1997-98	80.9	75.0	37.5	38.1	12.7	11.9	2,812	2,210

Note: Earnings amounts are in inflation-adjusted 1997 dollars.

Endnotes

[1]In addition, a wide variety of other benefits is available to low-income families, including subsidized housing, free or reduced price meals at school, and assistance for home heating bills.

[2]Until the mid-1980s, access to Medicaid for non-disabled and non-elderly individuals and their families was restricted to those who were enrolled in the welfare system. A series of reforms have gradually expanded access to Medicaid to low-income families, regardless of their participation in other programs. See Shore-Sheppard (1997).

[3]The chronology in table 1 is based on data from a number of sources, including Zellman et al. (1999). In addition to the federal program, counties in many states operate a limited cash assistance program known as General Assistance. This program is mainly targeted at those who are ineligible for other forms of assistance.

[4]Only about 10 percent of California welfare recipients in October 1994 reported any earnings. By 1998 this fraction had risen to 35 percent. See California Department of Social Services (1994) and (1998).

[5]Under the AFDC-Unemployed Parent or AFDC-UP program, benefits were available to two-parent families if the husband was unemployed. Federal law required all states to provide AFDC-UP after October 1990. Prior to that time, many states did not provide any benefits to married couple families.

[6]See Riccio, Friedlander, and Freedman (1994).

[7]See U.S. Health and Human Services (1996).

[8]The welfare payment data are based on calculations reported in California Legislative Analyst's Office (1998).

[9]Eissa and Liebman (1996), Eissa and Hoynes (1999), and Meyer and Rosenbaum (1999) provide more details on the EITC. The EITC offers a refundable credit that is a proportion of earnings up to some maximum level. The credit rate is modest for families with no children, but much higher (up to 40 percent) for families with children. For earnings above a second threshold, the credit is phased out. An important feature of the EITC is that it is not counted as income for purposes of determining eligibility for other welfare programs.

[10]This calculation ignores state and federal payroll and income taxes.

[11]Federal law restricts eligibility for food stamps to citizens, certain refugees, and immigrants who have worked more than 10 years in the U.S. The California Food Assistance Program provides funding for Food Stamps for legal immigrants who were in the U.S. before August 22, 1996 who do not meet the federal requirements.

[12]It should be noted that California AFDC benefits were cut in the early 1990s and again in 1997. Relative to peak levels in 1990, levels in 1998 were 19 percent lower.

[13]CalWORKS also introduced a number of monitoring functions for the counties. For example, as of January 1, 1998, children age 6-18 in any family that receives benefits are required to be enrolled in school, while pre-schoolers are required to be immunized. Counties are also required to discontinue aid to individuals who are convicted of a felony related to drug use.

[14]In Alameda County, 45 percent of the caseload were participating in welfare-to-work activities in December 1999, 24 percent were exempt from participation, 21 percent were not participating and had been sanctioned, and 9 percent were enrolled but not participating. See County of Alameda (1999).

[15]The state does not yet have a tracking system in place to measure welfare participation across county lines.

[16]The March CPS collects a variety of information on work activity, earnings, income, poverty status, and program participation over the previous calendar year. Survey respondents systematically under-report welfare participation and the amount of income received from welfare (Schoeni, 2000). Morever, the extent of under-reporting seems to have risen between 1993 and 1994 (from an average of about 20 percent in the late 1980s/early 1990s to an average of 30 percent in the 1994-98 period. Under-reporting should not affect comparisons of California versus the rest of the U.S.

[17]Among white non-Hispanics, average years of schooling rose from 12.8 years in 1979-81 to 13.6 years in 1997-98, versus a change from 12.0 to 13.0 in the country as a whole. Thus, even among white non-Hispanics the relative rise in education was slower in California than elsewhere.

[18]Note that someone who works full-time (40 hours per week) all year will report 2,080 hours per year. An annual average of 1,000 hours is therefore equivalent to a half-time job all year (or a full-time job one-half of the year).

[19]These averages are constructed over workers and non-workers, assigning zero earnings to non-workers.

[20]Data for 1999 were collected in the March 2000 CPS and will be available in late September 2000.

[21]The higher contribution of single mothers to the national totals is due to the fact that many other states greatly restrict access to welfare for two-parent families.

[22]One potential problem with welfare benefit amounts is that a change in benefit rates can affect the amount of benefits received with no change in behavior. Over the 1990s inflation-adjusted welfare benefits levels were fairly stable in most states, although they were cut by 19 percent in California between 1990 and 1996.

[23]Studies suggest that some people who leave welfare are not aware of their eligibility for food stamps – e.g., Zedlewski and Brauner (1999). To the extent this is true, welfare reform may affect food stamp participation. Moreover, federal law eliminated food stamp eligibility for legal immigrants who had been working in the U.S. for less than 10 years in August 1997. However, under the California Food Assistance Program, these individuals are eligible for food stamps funded by the state. Both of these factors suggest that food stamp participation may be somewhat affected by welfare reform.

[24]Starting with the 1989 CPS, which collected data for 1988, welfare recipients were asked how many months they received benefits. Full-year recipients are defined as those who report receiving benefits for all 12 months.

[25]Blank, Card, and Robins (2000) summarize a variety of studies of the effect of financial incentives for work by welfare participants, and argue that financial incentives have a strong effect on the probability of work by welfare recipients.

CHAPTER 12

WELFARE REFORM AND THE CALIFORNIA LABOR MARKET

EVELYN BLUMENBERG

Introduction

The passage of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 fundamentally transformed the provision of social assistance in the United States. The legislation eliminated Aid to Families with Dependent Children (AFDC), a program that entitled needy families with children to an array of benefits and public services. In its place, is now Temporary Assistance to Needy Families (TANF), a program that awards flexible block grants to the states, mandates tough new work requirements, and imposes a five-year lifetime limit on the receipt of public assistance. With this change in law, low-income families can no longer depend on receiving welfare benefits as part of a federal entitlement initially established to allow single mothers to remain at home and raise their children. Current welfare programs mandate employment for most participants and offer temporary financial aid and short-term employment assistance to help participants transition into the labor market. In compliance with federal legislation, in 1997 California adopted its own version of welfare reform, a program entitled the California Work Opportunity and Responsibility to Kids program (CalWORKs).

Prior to the passage of welfare reform legislation, many experts predicted that the labor market would not be able to absorb the influx of new low-wage workers who would flood the labor market as a consequence of the new work-first orientation of welfare programs (Burtless 1998; California Budget Project 1997; Ellis and Ellingwood 1998; Lerman et al. 1999). However, these predictions were unwarranted. Welfare rolls in California and elsewhere have plummeted with many welfare participants successfully finding unsubsidized, paid employment. A booming economy coupled with strict work requirements contributed to a 32.5 percent drop in the caseload from 932,345 in March of 1995 to 629,027 in February of 1999. In recognition of this decline former Governor Pete Wilson, an early proponent of welfare-to-work programs, stated, “My friends, CalWorks works. So let's keep it that way. Together, you are ending the cycle of welfare."

However, the evidence from California suggests that it is too early to proclaim welfare reform's success. There is still good reason for caution in interpreting recent caseload dynamics since many welfare participants maintain a tenuous connection to the labor market. Even in the midst of a booming economy, most welfare participants find employment in low-wage jobs that offer few, if any, benefits, limited job security, and little opportunity for economic advancement. As a result, many welfare participants must remain on aid even if they work. Moreover, if current robust economic conditions turn sour, it is likely that many participants will lose their jobs and return to welfare or, if their time limits have expired, turn to other less reliable sources of financial support.

The success of welfare reform in California and elsewhere lies not only in moving welfare participants from aid into the labor market but in creating the employment support systems that allow participants to achieve economic self-sufficiency. Job training and other employment services will aid welfare participants in finding jobs, remaining in the labor market, and, ultimately, in earning incomes high enough to adequately support their families. In many respects, the challenges facing welfare participants in their efforts to move from "welfare to work" are identical to those facing California's low-wage work force. While there are opportunities, particularly funding opportunities, that are targeted to welfare participants, when possible, proposed policies for welfare participants must be advanced in the context of a broader policy agenda aimed at all low-wage workers.

CalWORKs: Welfare Reform in California

California's Work Opportunity and Responsibility to Kids program (CalWORKs) is intended to reduce child poverty and welfare dependence, promote employment and economic self-sufficiency, remove barriers to employment, and minimize adverse outcomes. To accomplish these objectives, the CalWORKs program provides temporary financial support, establishes mandatory work requirements, and gives the counties wide flexibility in designing employment-related programs to rapidly move participants into the labor market. The principal objective of the program is to reduce the caseload and achieve a work participation rate of 50 percent by the year 2002 (California Department of Social Services 1997).[1]

The central component of CalWORKs is employment. The program requirements mandate that nearly all benefit participants participate in a welfare-to-work program unless they are exempt from this requirement.[2] While federal and state legislation emphasizes work and work-related activities, counties have wide latitude in designing programs and services to meet the employment needs of participants. Typically, the menu of programs includes orientation and appraisal, job search, employment assessment, welfare-to-work activities, job-retention services, and community-service employment. Welfare-to-work activities may include education related to employment, adult basic education, job training (on-the-job training, grant-based OJT, vocational education and training), work experience, and employment (unsubsidized, subsidized private- or public-sector employment). Most counties also offer an array of employment services including child care, transportation programs and subsidies, mental health and substance abuse treatment, and domestic violence counseling.

Next to New York, California has the largest welfare caseload in the nation. As of June of 1999, one-quarter (1.7 million) of the country's program participants lived in California where welfare usage rates were 5.2 percent, more than twice the national rate (U.S. Health and Human Services 1999a). Approximately 500,000 families are required to participate in welfare-to-work activities; in 1998, 36.4 percent (179,953) of families met their work requirements by either working or participating in some work-related activity (U.S. Census Bureau 1999; U.S. Health

and Human Services 1999b). As table 1 shows, almost 87 percent of participants fulfilled the requirement through unsubsidized employment and the remaining participated in an array of other work-related activities. The distribution of welfare participants across these activities may reflect participants' preferences for employment as well as the current availability of jobs. It may also be the result of program requirements that emphasize moving participants into unsubsidized jobs. Finally, few participants are enrolled in education and training programs perhaps due to the limited number of eligible programs and the difficulty agencies have had restructuring services to comply with new welfare regulations (Klerman 2000).

Table 1: Work Activities of Participating CalWORKs Families -- 1998

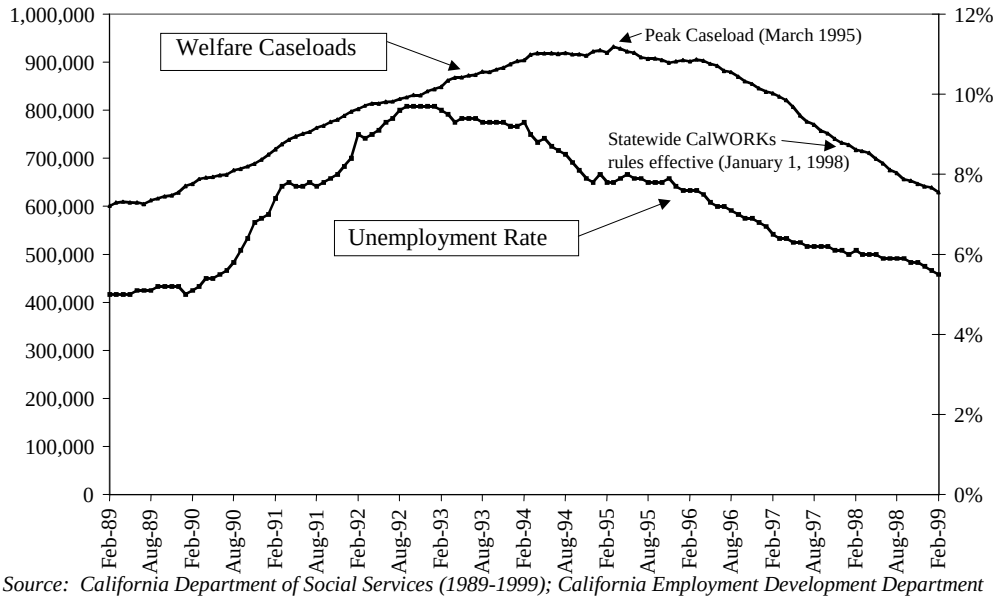
Unsubsidized Employment	86.9%
Subsidized Private Employment	0.7%
Subsidized Public Employment	0.5%
Work Experience	0.9%
On-the-job Training	0.2%
Job Search	5.5%
Community Service	2.8%
Vocational Education	2.5%
Job Skills Training	0.2%
Education Related to Employment	0.9%
Satisfactory School Attendance	0.9%
Providing Child Care	0.5%

Source: U.S. Health and Human Services (1999b)

The Rise and Fall of California Caseloads

The size of California's welfare population has varied both over time and across counties. As figure 1 shows, caseloads in California began to decline prior to the passage of federal welfare reform legislation in 1997 and the implementation of the new law in 1998. California

Figure 1: Welfare Caseloads and Unemployment Rates in California

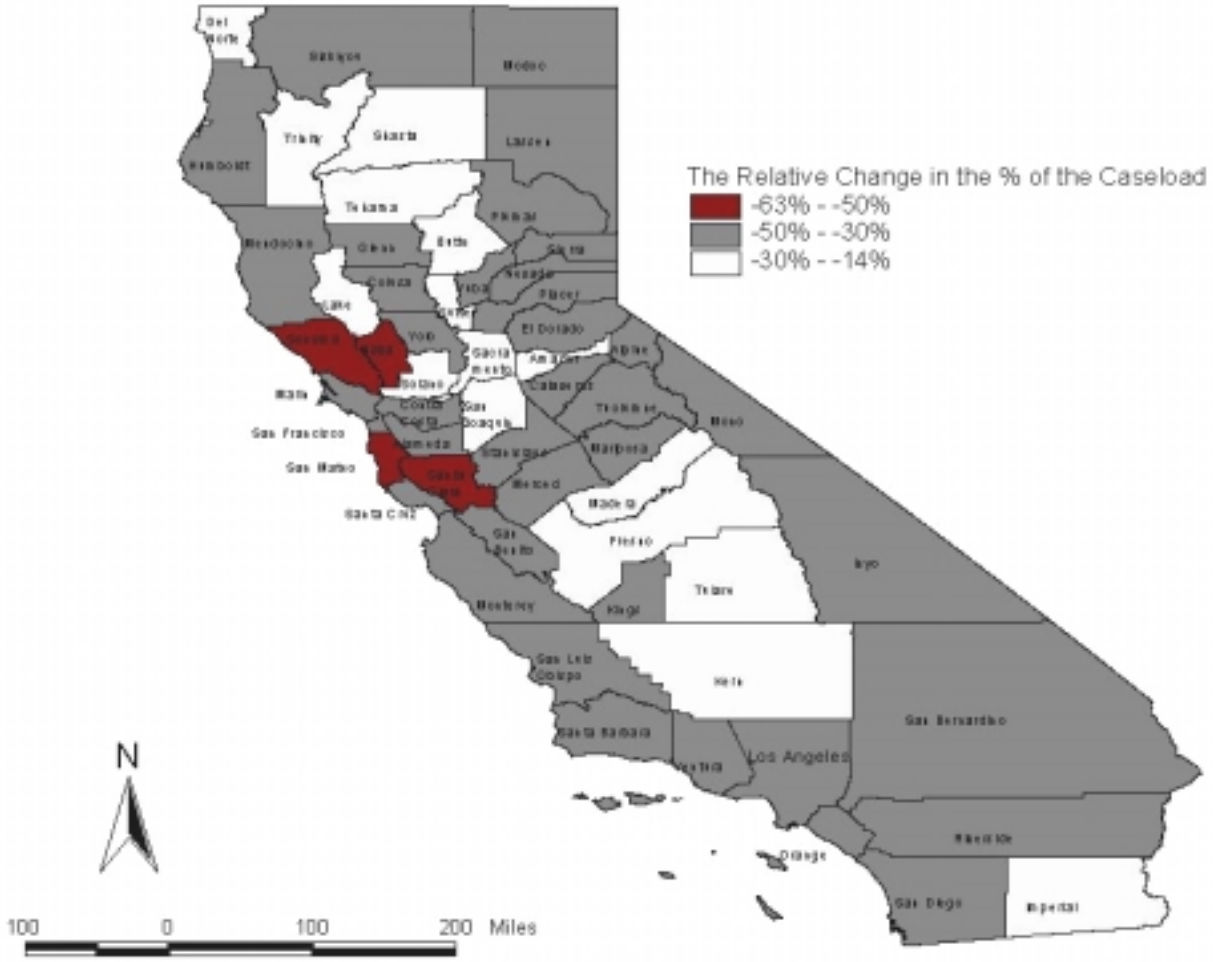


Source: California Department of Social Services (1989-1999); California Employment Development Department (1999).

caseloads peaked in March of 1995 and then continued to decline, falling by 32.5 percent between the peak year and February of 1999. However, these aggregate figures hide substantial variation in caseload reduction among California counties. Figure 2 shows that some counties have reduced their caseloads up to 63 percent (San Mateo County) and others as little as little as 15 percent (Madera County). Caseload reductions have been greatest in some of the state's most affluent counties, many of them coastal communities such as San Mateo, Santa Clara, Napa, Sonoma, and Orange Counties.

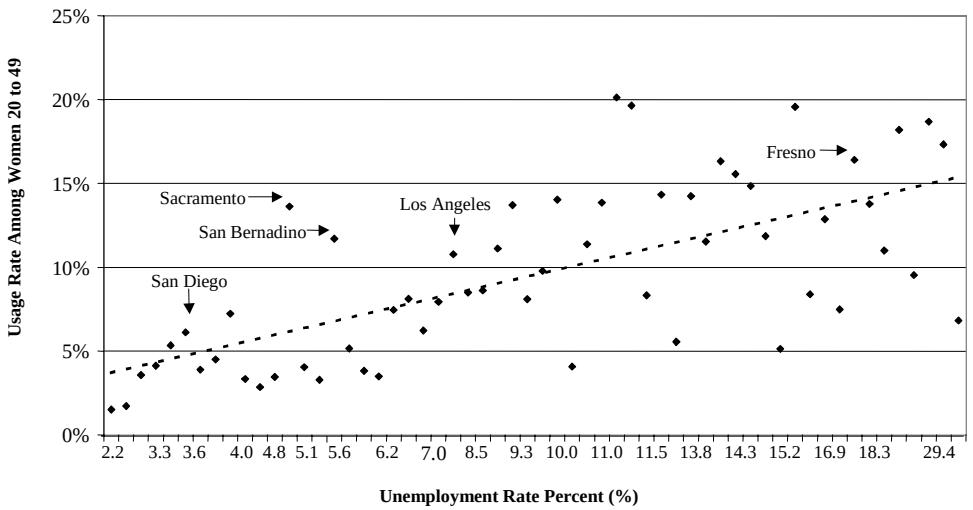
Figure 1 also shows the relationship between fluctuations in the caseload and the unemployment rate over a 10-year period from 1989 to 1999. Welfare caseloads and the unemployment rate increased in tandem into the early 1990s when California began to emerge from economic recession. From 1992 to 1995, the welfare rolls continued to expand even as the unemployment rate declined from its peak of 9.7 percent in 1992. Since March of 1995, both the welfare caseloads and the unemployment rate have fallen to their current levels.

Figure 2: The Relative Change in the Percentage of the Caseload from March 1995 to February 1999



Economic conditions vary across the state as well as over time. For example, county unemployment rates for February of 1999 ranged from a high of 29.4 percent in Colusa County to a low of 2.2 percent in San Mateo County. Figure 3 shows a scatterplot of the unemployment rate versus the welfare participation rate (among women ages 20 to 49) for all 58 California counties. Identified on this graph are the five counties with the greatest number of program participants; these five counties contain approximately 60 percent of the state caseload. The scatterplot shows a positive relationship between county unemployment rates and welfare usage. The actual statistical correlation between these two variables is .574, and the regression line (represented in the graph with a dotted line) represents the best linear fit of the data.

Figure 3: Welfare Participation Rate Versus Unemployment Rate for California Counties, 1999

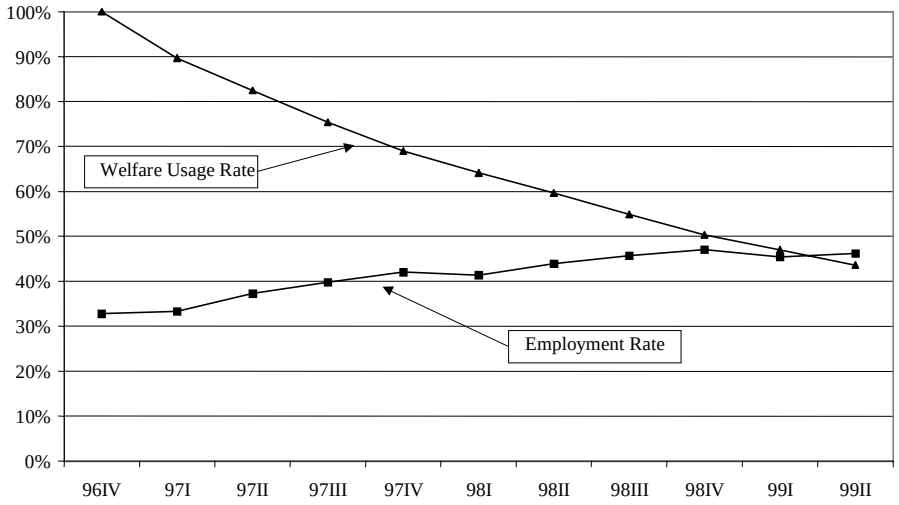


Labor Market Outcomes for Welfare Participants[3]

Fluctuations in the welfare caseload are due to changes in the rate of entry into the welfare program as well as the rate at which program participants leave the welfare system. Data on a cohort of welfare participants who were on welfare in the fourth quarter of 1996 show that welfare participants exit the welfare rolls at a fairly rapid rate; however, only a percentage of these participants enter the labor market. However, the economic prospects for working welfare participants remain grim. Many welfare participants do not earn enough income to survive without receiving supplemental welfare benefits; and, on average, the earnings of former welfare participants who are employed remain just above the federally-designated poverty line. Figure 4 shows changes in the welfare usage rate for a cohort of welfare participants who were on welfare in the fourth quarter of 1996. Usage rates among this cohort declined to 37 percent over a two-year period; the average quarterly rate of decline was 7.9 percent. The overall decline in welfare usage among this cohort of participants shows that many participants leave welfare, at least temporarily, but not all of these participants enter the labor market. In figure 4, the line with the square markers shows the employment rate of welfare participants who were on welfare during the fourth quarter of 1996. These employment figures represent welfare participants who exited off of welfare into the labor market and those welfare participants who both receive welfare and work. The graph shows an increase in the employment rate of this cohort over the two-year

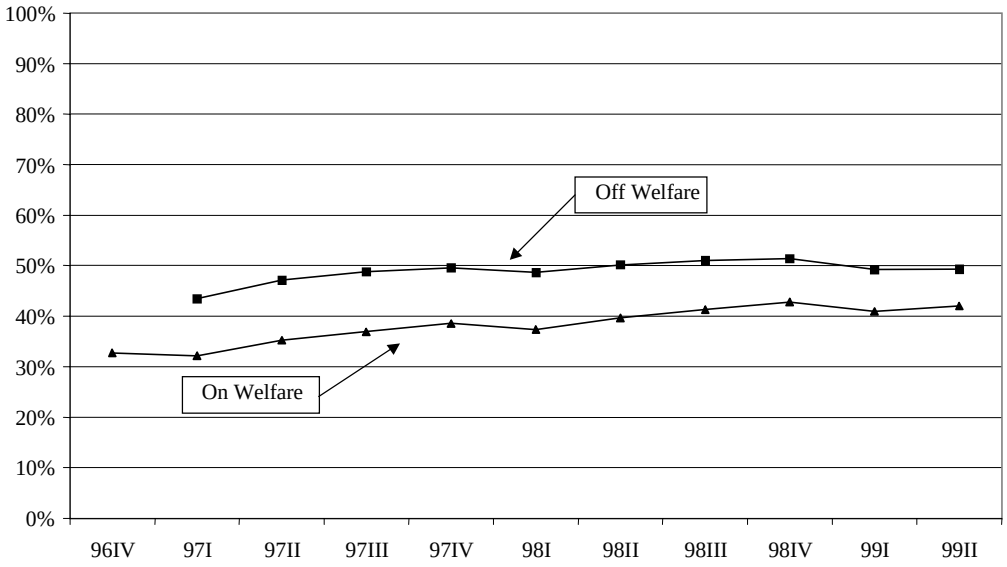
period; but still, less than one-half of all participants in the cohort are employed two years later. As the graph shows, 33 percent of all participants are employed the first quarter; the employment rate increases to 46 percent by the second quarter of 1999.

Figure 4: Welfare Usage and Employment Rates 1996 -- 1999



Oftentimes, welfare participants cannot earn high enough wages to support their families and, therefore, cannot survive without supplementing their earned income with public assistance. In these cases, welfare participants' income package combine welfare benefits with earned income and perhaps other sources of income (Edin 1997). Figure 5 shows a consistently higher employment rate among non-participants compared to participants; however, these differences decline over time since, as the graph shows, the employment rate of non-participants increases more rapidly that that of non-participants. Over this period the employment rate among participants increased by 28 percent compared to 13 percent among non-participants.

Figure 5: Employment Rate by Participant Status 1996 -- 1999



Employment is much more prevalent among some members of the cohort than among others. Table 2 shows that welfare participants who are female or Asian are less likely to work than participants who are male or from another ethnic or racial group. For example, over 40 percent of male and Hispanic welfare participants have worked five or more quarters. Moreover, the table shows that employment behavior among program participants declines with age, with participants ages 20 to 29 showing the highest levels of reported employment over the study period.

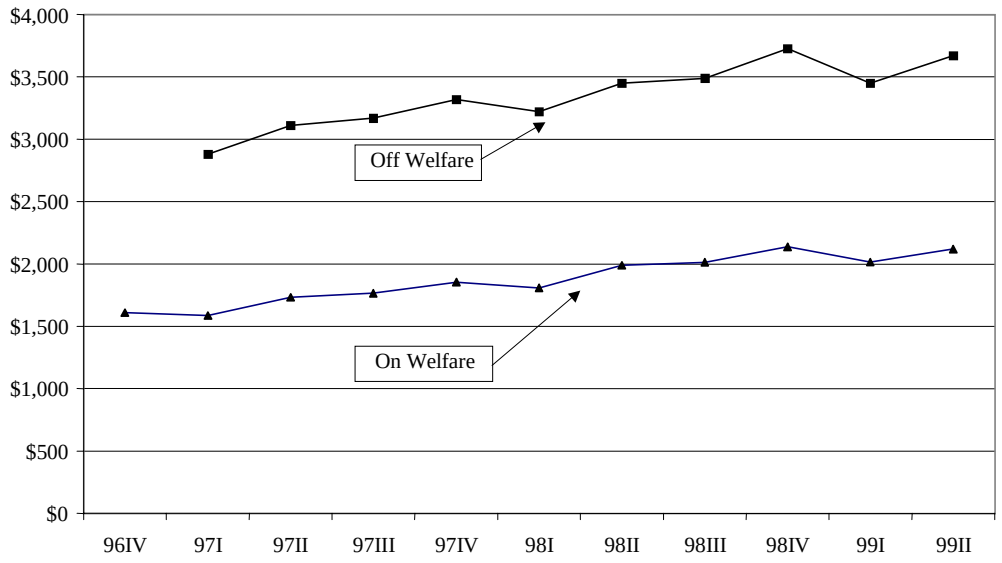
Welfare participants have difficulty supporting their families since most of them earn incomes at or below the poverty line. Figure 6 follows the quarterly earnings of participants from the 1996 cohort who had earnings. The median quarterly earnings of working former participants for the second quarter of 1999 were approximately $3,700 or the equivalent of $14,700 per year. This figure is only slightly over the poverty line for a family of three; the poverty rate for a single-parent family with two children is $13,400 (U.S. Census Bureau 1999).

Table 2: Profile of Cohort by Quarters Worked

	Number of Quarters Worked		
	0 quarters	1-4 quarters	5-8 quarters
Sex			
Female	37%	29%	34%
Male	29%	26%	44%
Age			
20-29	30%	33%	37%
30-39	37%	27%	36%
40-50	44%	23%	33%
Case Type			
FG	35%	30%	35%
U	36%	26%	38%
Language			
English	34%	30%	36%
Spanish	33%	26%	42%
SE Asian	50%	20%	31%
Race/Ethnicity			
NH White	39%	30%	32%
Hispanic	31%	29%	41%
Black	32%	31%	38%
Asian	47%	21%	32%

On average, participants earn approximately 57 percent of the earnings of working non-participants in the cohort. The annual earnings of working participants climb to approximately $8,500, a figure that is substantially below the poverty line for a family of three. However, the

Figure 6: Median Quarterly Earnings of Employed Participants 1996-1999



earnings of participants increased at a slightly faster rate than for non-participants - 32 percent compared to 27 percent. One of the key issues, therefore, is whether welfare participants can ultimately work their way off of welfare and into jobs making high enough earnings to support their families.

Barriers to Successful Labor Market Transitions

It is difficult to determine the effects of welfare reform on the wages and employment of low-wage workers in California, particularly during a period of sustained economic growth. The State's Employment Development Department (EDD 1999) projects that economic growth in the state will produce more than enough jobs to accommodate the influx of 348,000 new welfare participants who will enter the labor market over the next couple of years. During this same period, they estimate that 310,000 new jobs will be produced annually and a similar number of jobs will become available due to separations, jobs openings that occur due to retirement or when workers change occupations (EDD 1999). In another study, investigators with the Urban Institute examined the employment effect of welfare reform in 20 U.S. metropolitan areas (Lerman et al. 1999). They, too, find that given current levels of job growth and new recipient entrants into the labor market, unemployment among low-skilled workers would decline from 7.1 percent to 6.2 percent and that unemployment in Los Angeles would also decline (Lerman et al. 1999). However, the specific impact of welfare reform on the wages and unemployment is not certain; while the economic recovery produces jobs, the wages may be lower and the unemployment rate higher than they would have been without welfare reform.

Even in a relatively tight labor market, welfare participants will have to compete with other low-wage job seekers for available jobs. The Urban Institute study shows that the post-welfare reform unemployment rates among low-skilled workers in Los Angeles will remain high,

9.6 percent (Lerman et al. 1999). Welfare participants may face multiple employment barriers that make it difficult for them to find employment. Studies show that welfare participants may not have access to available jobs since many live in job-poor neighborhoods distant from employment opportunities and without reliable forms of transportation on which to depend (Bania et al. 1999; Blumenberg et al. 1999; Holzer 1999; Pugh 1998; Rich 1999). Not only do many welfare participants live distant from available jobs, they also face an array of individual barriers to employment (Barusch et al. 1999; Johnson and Meckstroth 1998; Olson and Pavetti 1996; Danziger et al. 1999).

Data from a job readiness survey administered by the California Department of Social Services in 1996 shows that this finding holds true for welfare participants in California.[4] Program participants in California are plagued by many employment barriers and the presence of these barriers, individually and in combination greatly reduces the likelihood that participants will be employed. For this analysis, participants are identified as having an employment barrier if they have (a) less than a high school education, (b) limited English language skills, (c) a health condition or disability that limits the amount or type of work they can do, (d) a disabled child, (e) two or more children requiring childcare or (f) if they typically travel by public transit. Column 2 in table 3 shows the percentage of the sample with the identified employment barrier. The two most prevalent barriers are having less than a high school education and two or more children in need of child care; almost one-half of all participants face each of these barriers.

Table 3: Types of Employment Barriers

		Recent Work Experience	
Barrier	**% of sample with barrier**	**Without Barrier**	**With Barrier**
Less than a H.S. degree	49%	58%	42%
Limited English language skills	31%	54%	43%
Travel using public transit	27%	55%	43%
Health problem	19%	54%	38%
Disabled child	5%	51%	33%
2+ young children	48%	56%	45%

These characteristics are associated with difficulties in finding and keeping jobs. For this analysis, employment is defined as participants with recent work experience, these are participants who were working at the time of the survey or participants who had been employed during the previous year (1995). Column's 3 and 4 in table 3 show the mean employment of participants with and without the employment barrier.[5] The data show higher employment rates among participants without each of the barriers, and the differences are statistically significant. These barriers also affect the likelihood that participants have had recent employment, controlling for the presence of other barriers. A logistic equation is used to estimate employment as a function of sex and the above six employment barriers.[6] The results of this analysis appear in Appendix 2 and show that being female is negatively associated with employment and so too are all of the identified employment barriers.

The above analysis does not account for the effects of multiple barriers on the likelihood of employment. Table 4 shows the distribution of welfare participants in the sample by the number of identified employment barriers that they face. While only 12 percent of the sample had no identifiable employment barrier, almost 30 percent of the sample had three or more barriers. Table 4 also shows the percentage of welfare participants with employment by the number of identified barriers that they face. As the number of barriers increase, the percentage of participants who work declines precipitously from employment rates of 62 percent among

participants who have no identified employment barrier to 21 percent among participants with four or more barriers

Table 4: Multiple Employment Barriers

Number of Barriers	% of Welfare Participants	Employment Rate
0	12%	62%
1	30%	54%
2	30%	47%
3	21%	36%
4+	7%	21%
All Participants	100%	47%

A second logistic regression was used to examine the relationship between the presence of multiple barriers and employment outcomes.[7] The analysis shows that the probability of employment declines with the increase in the number of potential work-related barriers. The coefficients are negative and increase substantially with each additional barrier.

The analysis of employment barriers facing welfare participants confirms the perceptions of welfare participants of the types of barriers they face. In the same job readiness survey described earlier, respondents were asked whether they have experienced problems finding or keeping jobs and if they have, to describe the type(s) of problems that deterred them from finding or keeping jobs. Among two-parent households (AFDC-U cases), only 34 percent indicated that they faced barriers to employment; among single-parent households (AFDC-FG cases), the percentage of participants experiencing barriers to employment almost doubles to 66 percent.

Table 5 shows the percentage of respondents by case type (AFDC-FG or AFDC-U) who identified a problem as something that deterred them from finding and keeping employment.[8] Overall, the top five barriers for all participants (column 4) include the job-skill level of available jobs, having limited English language abilities, the lack of employment opportunities, child care problems, and educational deficiencies. The table also shows some significant differences by case type, with a very high percentage of two-parent families facing language problems (65 percent) as well as labor market-related impediments. For single-parent households who are largely women headed, childcare and transportation issues are also significant deterrents to employment.

The data suggest, therefore, that while job vacancies may occur, welfare participants are not well positioned to compete for these jobs. They often face multiple human capital and labor market-related barriers that put them at a disadvantage. Additionally, as welfare participants are creamed from the rolls and those with the fewest barriers find employment, the remaining participants are those most likely to face multiple and often intractable obstacles to succeeding in the labor market. New strategies must be developed to address the complex set of barriers facing welfare participants.

Table 5: Recipients' Perceptions of the Problems that Have Deterred Them From Finding and Keeping Employment

Employment Barrier	Two-Parent Household	Single-Parent Household	Total
Job skill level	47%	39%	42%
Limited or no English	65%	23%	37%
No job available	40%	30%	33%
Problems related to child care arrangements	19%	37%	31%
Education level	24%	29%	27%
Transportation problem	15%	28%	24%
Wage level too low	20%	19%	20%
Health problems	17%	14%	15%
Seasonal/temporary employment	12%	7%	8%
Chronically ill child	3%	4%	3%
Problem with alcohol/drugs	1%	2%	2%
Felony conviction	1%	3%	2%
Domestic violence	.1%	1%	1%

Welfare Participants and the Labor Market

In California, welfare caseloads have declined substantially. Some welfare participants are able to find jobs that pay enough for them to exit the welfare system. However, many of these former participants do not have the skills and work experience to compete for skilled, high-waged employment, instead finding jobs in which they get paid only slightly above the poverty line. Other participants remain on welfare, juggling work requirements but ultimately unable to find adequate employment; many of these participants face numerous and, perhaps, interrelated employment barriers.

The policy strategies to address the work-related problems facing welfare participants are numerous. With respect to California's welfare program, policy-makers should establish programs to:

- increase the percentage of welfare participants who are job ready;
- improve welfare participants' initial job placement; and
- increase the likelihood that current and former program participants, once working, remain in the labor market and ultimately achieve economic mobility.

To accomplish these objectives, welfare programs must strengthen the mix of services available to welfare participants. For some participants, services to address physical and mental health, disability, and domestic violence-related issues can remove potentially detrimental obstacles to employment. High quality and targeted job training and education will position welfare participants to compete for better quality jobs, while other employment services such as childcare and transportation will ease participants' transition into the labor market.

Finally, the success of welfare reform rests not only on moving program participants off of the welfare rolls but also on keeping former participants gainfully employed. Post-employment services are intended to support those participants who are newly working. In Los Angeles, for example, post-employment services are available to participants for up to 12 months following their termination from aid. These services include continued case management, job retention services, earned income tax credit (EITC) counseling, career assessment, opportunities for continued educational development, on and off the job skills training, work experience, life

skills instruction, one-to-one mentoring, continued supportive services, rapid re-employment services and substance abuse/mental health/domestic violence services.

The employment issues facing welfare participants cannot be separated from those facing all low-wage workers. While supply-side programs targeted to welfare participants can be effective, they can create inequities between those receiving public benefits and services and other low-income, non-participants, many of whom share similar financial circumstances. Therefore, policies must be introduced to improve conditions and opportunities for low-wage workers in general. In recent years, the earned income tax credit (a refundable tax credit available primarily to working families with children and incomes of less than $30,000 a year) and increases in the minimum wage were intended to raise incomes among low-wage workers. For example, studies find that the earned income tax credit reduces poverty and increases work behavior among welfare participants (Dickertt et al. 1995; Eissa and Liebman 1996; Greenstein and Shapiro 1998). Therefore, expanding the earned income tax credit as increasing the percentage of low-wage workers who apply for this tax credit will benefit all low-income workers including welfare participants. Employment benefits will also come from creating or expanding health care and child care programs targeted to low-income families. Finally, welfare participants will benefit from efforts to expand sectors in the labor market that pay living wages; these efforts might include industrial development strategies to protect and attract industries that pay a living wage as well as union organizing efforts to improve conditions in existing low-wage sectors.

Welfare participants *will* benefit from short-term programs targeted to the welfare population. If effective, these specialized services and subsidies will enable welfare participants to enter the labor market quickly, prior to reaching time limits on their receipt of public benefits. However, in the long run, policies aimed at improving the labor market opportunities for low-wage workers will be essential to reducing the numbers of low-wage families who enter the welfare system and increasing the likelihood that once off of welfare, former participants remain benefit free and, ultimately, achieve economic self-sufficiency.

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Appendix 1: California Work Opportunity and Responsibility to Kids Welfare to Work Act of 1997, AB 1542	
Time Limits	• Aid time limit: Five-year cumulative lifetime limit on aid; • Work time limit: Adult applicants cannot receive aid for more than 18 consecutive months.
Work Requirements	• Participants must participate in an initial 4-week period of job search; following job search, adults are required to work or be in work activities • Work activities include: on-the-job training, job search and job readiness assistance, community service, vocational training, job skills training or education directly related to employment, • Those who need it will receive subsidized child care
Earn Your Check	Grants to participants who do not meet their work participation requirements are reduced by the adult's portion of the grant
Diversion Assistance	Lump-sum services or one-time cash payments can be issued if they are likely to make TANF assistance unnecessary
County Fiscal Incentives	• Counties are given wide flexibility to design their own programs and set their own goals for getting participants work; • Counties keep 100% of the saving achieved for successful results; • Federal penalties for failure to meet work requirements
Immunization	Applicants must provide documentation that children not enrolled in school have received appropriate immunizations
School Attendance	All school-age children must attend school to receive aid
Child Support	Child support payments are subject of a $50 income disregard; refusal by the recipient to cooperate with child support collection efforts results in a grant reduction

Appendix 2: Effects of Employment Barriers on Recent Employment						
	Model 1			Model II		
	Coefficient	Std. Error	Odds Ratio	Coefficient	Std. Error	Odds Ratio
Constant	1.3095***	.0162		1.2193***	.0178	
Sex	-.7826***	.0148	.457	-.7859***	.0141	.456
Individual Barriers						
Less than a H.S. degree	-.2647***	.00864	.767			
Limited English language skills	-.4227***	.0105	.655			
Travel by transit	-.5225***	.00907	.593			
Health problem	-.7688***	.0118	.464			
Disabled child	-.4546***	.0201	.635			
2+ young children	-.3597***	.00834	.698			
Multiple Barriers						
1 barrier				-.3187***	.0136	.727
2 barriers				-.6304***	.0137	.532
3 barriers				-1.1238***	.0148	.325
4 or more barriers				-1.9562***	.0225	.141
-2 log likelihood		955.9			955.6	
Chi-square (df)		46.2 (7)			46.5 (5)	
Number of Observations		723			723	
*p<.10, **p<.05, ***p<.01						

Endnotes

[1] Appendix 1 lists the CalWORKs program requirements.

[2] Only 20 percent of a county's caseload can be exempted. Exemptions are often made for teen parents in school, the disabled, the elderly, caretakers or relatives of the disabled, and parents of children under 6 months (Zellman et. al., 1999).

[3]Access to data for the cohort analysis was granted in order to compare the welfare and employment dynamics of welfare participants in California to those of participants in Los Angeles County.

[4] For a complete analysis of welfare participants and employment barriers in California, see Blumenberg, 2000.

[3] With one exception ("disabled child"), the difference in the means is significant at below the .01 level.

[6] $EMP = \alpha_0 + \sum_{k=1}^{6} \beta_k \, Bar_k + \gamma S + \mu_1$ where Emp = working at the time of the survey or in the previous year; Bar_k = a set of 6 dummy variables representing each of the employment barriers; S = sex; and μ = the random error term.

[7] $EMP = \beta_0 + \sum_{k=1}^{4} \beta_k N_i + \gamma S + \mu_2$ where Emp = working at the time of the survey or in the previous year; N_k = 1 if the number of barriers = i and 0 otherwise (from 1 to 3 barriers); N_4 = 1 if the number of barriers is greater than 3 and 0 otherwise; S = sex; and μ = the random error term.

[8] These are likely influenced by the relative robustness of the economy as well as participants' ability to self-identify as individuals who face particular barriers.

CHAPTER 13

WELFARE TO WORK AND THE ENTRY-LEVEL LABOR MARKET

PAUL M. ONG AND SHANNON MCCONVILLE

Introduction

Welfare reform can be viewed as a glass both half-full and half-empty. Proponents point to a dramatic drop in the welfare rolls and an increase in employment rates as proof of success. Opponents counter by highlighting the substantial numbers still dependent on public assistance, along with low wages and job instability for those who find work. The reality is somewhere between the two extremes, but, equally important, it is too early to make any definitive conclusions on the consequences of welfare reform. Many key outcomes will not be apparent until two or three years from now, including whether current successes will continue as the economy slows and whether employment is providing sufficient financial support for families. It is, however, time to seriously examine what has materialized since the passage of the Personal Responsibility and Work Opportunity Act (PRWOA) of 1996. Clearly, we need to monitor and assess the short-run impacts of the most fundamental change in social policies in decades; moreover, an analysis can also help determine what, if any, mid-course corrections are needed.

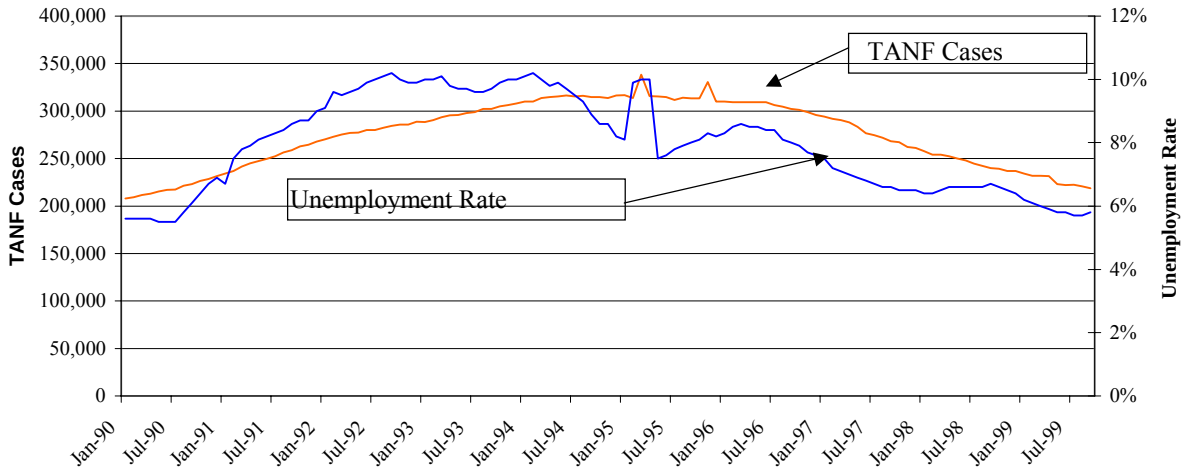
In particular, there is a need to examine in greater detail how welfare recipients are being incorporated into the labor force. Employment outcomes are central to assessing welfare reform because the new policy has adopted a work-first approach to welfare-to-work job training programs which emphasizes finding employment quickly. Moving people into employment helps to achieve one of the major goals, lowering the welfare rolls. The policy also embodies an approach about what is best for recipients and how they can best support their families. The underlying assumption is that "The best way to succeed in the labor market is to join it ... that job advancement and higher wages will come from the experience of working..." (Holcomb et al. 1998). In other words, the operative assumption is that mere entry into the labor market will help families to achieve the goal of economic self-sufficiency over time. Work-first appears to be accomplishing the critical goal of lowering the welfare rolls through immediate job placement, but it remains to be seen whether there is sufficient employment stability, upward mobility, and wage growth to achieve the second goal.

What makes achieving self-sufficiency problematic is the way that recipients have so far been incorporated into the labor force. With the work-first philosophy, initial employment outcomes depend on the existing personal attributes of recipients, in particular their education levels and previous work experience. For recipients with limited schooling and a limited work history, employment opportunities are typically confined to low-skill entry-level positions. However, we are only beginning to understand how recipients joining the workforce are relegated to the bottom end of the labor market, and we know even less about the nature of this segment, often referred to as the entry-level labor market.

This chapter examines these issues through a case study of Los Angeles County, home to over 400,000 welfare recipients, or one-third of the state's welfare population. The county is an appropriate unit for analysis because unlike many other states, California has a county administered welfare system. The state sets the general parameters, provides funding and retains general oversight. However, counties are responsible for the daily operations of welfare programs, including implementing new policies. Although counties are afforded some flexibility in setting priorities and designing programs, they must meet standards and benchmarks set by the state. With nearly ten million total residents, Los Angeles contains over one-quarter of the state's total population and nearly one-third of its welfare population. In fact, Los Angeles contains a disproportionate share of the nation's welfare recipients. In 1996, just prior to the implementation of federal welfare reform, the County contained approximately 4 percent of the nation's total population and about 7 percent of the nation's AFDC population. Los Angeles operates the largest county welfare program in the nation and provides assistance to more families than all other states except New York and California.

Since the advent of welfare reform, welfare participation has declined in Los Angeles County. Figure 1 shows the trend in caseloads over the 1990s in Los Angeles County, illustrating the consistent increase in the early part of the last decade (March 1995) and the subsequent decline of 35 percent by late 1999. The turning point in the caseloads preceded the implementation of the current round of national welfare reform. The decline is the likely result of a combination of an improved economy and state-level changes to the welfare system that preceded federal reforms.[1] Despite the dramatic decrease in the welfare caseloads, over 429,000 people continued to receive cash assistance in Los Angeles County as of January 2000. Children compose the bulk of people aided in Los Angeles, with adult recipients, accounting for just over one-quarter of the total caseload, about 120,000 adults.

Figure 1: TANF Cases and Unemployment Rate Los Angeles January 1990 -- September 1999



A single case study of one county has limitations; nonetheless, the case study of Los Angeles does offer a systematic and feasible way of examining employment outcomes in greater detail. Additionally, the fact that Los Angeles is a large, ethnically- diverse, urban county with one of the largest welfare caseloads in the country, its experience will provide insights for other large metropolitan areas throughout the country. The chapter addresses the following three sets of questions:

- What is the history of welfare-to-work in Los Angeles, and how has the work-first approach been implemented in the county?
- What marketable skills do recipients possess, and how does this influence the way they are being incorporated into the labor force?
- What are the characteristics of the firms employing recipients?

The chapter only focuses on recipients who have been able to transition to at least some level of employment. It does not examine those recipients who have not made the transition. The problem of persistent unemployed for many recipients is, of course, a major policy concern, but is beyond the scope of this chapter. The analysis of employment outcomes for recipients who do find a job is based on survey, administrative data, and summaries of other studies. The information has limitations; nonetheless, the analysis yields some important insights.

Many of the conclusions are not surprising, but the chapter does provide greater specificity. An overwhelming majority of welfare recipients are poorly prepared for entry into the labor market because of limited education and a lack of work experience. As a result, they are highly concentrated in low-wage occupations, their earnings tend to be low, and employment stability is problematic. In other words, an overwhelming majority of recipients moving into employment do so through the entry-level labor market, the segment of the market that hires individuals with limited education and skills.

Among the leading twenty occupations of recipients, the average hourly wage is between $6 - $7, with a median wage at the minimum wage of $5.75. Nearly half of the firms employing recipients do not require a high school education for their entry-level positions, and over 90 percent of recipient workers are in firms with low to moderate average monthly wages. Working recipients also face high turnover rates and lack promotional opportunities in firms where they find employment. Finally, they experience barriers to receiving the most important employment benefit, health insurance. Given what is known from the first few years of welfare-to-work, one of the major challenges in upcoming years is developing adequate post-employment services that will provide recipients with the necessary support to keep jobs, find better jobs, and make progress to economic self-sufficiency.

Evolution of Welfare-to-Work:

As with other parts of the nation, the welfare system in Los Angeles has been transformed by the shift in social policy. The enactment of the 1996 Personal Responsibility and Work Opportunity Act (PRWOA) ended an entitlement program (Aid to Families with Dependent Children, or AFDC) and established a block grant program Temporary Aid to Needy Families (TANF), which imposes work requirements and time limits for receiving cash aid. The 1997 California Work Opportunity and Responsibility to Kids (CalWORKS) program is California's implementation of TANF.

Welfare-to-work programs existed prior to these major reforms; however, the approach to these training programs and the recipients they targeted were still being tested. The passage of PRWOA and CalWORKs cemented the work-first approach as the predominant welfare-to-work strategy for the nation and California. The work-first approach, focused on fast attachment to the labor force, represents a fundamental departure from the human capital model, focused on education and basic skills training. With a work-first model, employment outcomes of recipients will be based on their existing personal characteristics and job-readiness. Rather than enhancing the job readiness of recipients though programs providing job training and education, work-first welfare advocates moving recipients into employment quickly.

Although 1996 was a major turning point in welfare policy, the development of work-first predated this most recent round of welfare reform. To encourage work among welfare recipients, several states had initiated welfare-to-work programs and experimented with financial incentives, such as income disregards, for working welfare recipients. California was a frontrunner in the welfare-to-work movement, establishing the Greater Avenues to Independence (GAIN) program in 1987 designed to reduce long-term welfare dependency and facilitate employment for welfare recipients through education and training programs. A year later the federal government created the Job Opportunities and Basic Skills

(JOBS) block grant program as part of the Family Support Act of 1988, and GAIN became the JOBS program in California. Because welfare programs are county-operated in California, counties were given considerable flexibility in designing their GAIN programs.

There was considerable variation across counties in the implementation of GAIN. Riverside County chose to move recipients quickly into the labor market by communicating a "strong" message at all stages of the program that "employment is central, that it should be sought expeditiously, and that opportunities to obtain low-paying jobs should not be turned down." This is in striking contrast to the message sent to recipients in Alameda County, which chose a human-capital model, and "encouraged recipients to be selective about the jobs they accept and take advantage of GAIN's education and training to prepare for higher paying jobs" (MDRC 1994). Los Angeles County adopted the human-capital development model for its GAIN program, providing basic education and training services to long-term recipients—those that had been on aid for at least three consecutive years. Most recipients who entered the Los Angeles GAIN program were assigned to Adult Basic Education, GED preparation, or English as a Second Language courses.

The inter-county differences offered policy-makers and administrators an opportunity to examine the relative effectiveness of alternative approaches. Several evaluations of welfare-to-work programs were conducted in California and nationally to determine the efficacy of the different types of program designs. The most influential one was conducted by MDRC (Manpower Development Research Corporation 1994), which documented substantially larger employment and earnings gains for recipients enrolled in Riverside's work-first GAIN program, than for recipients enrolled in counties that used the human-capital approach. Furthermore, Riverside's program proved to be much more cost effective by significantly reducing welfare payments.

As a result of the evaluation findings, Los Angeles County shifted its GAIN program from a basic skills and education program to an employment-focused, work-first model. Los Angeles County's Jobs-First GAIN program began operation in 1993 and focused on imparting a strong, pro-work message and providing job clubs and job development activities intended to boost recipients' motivation to work and increase their job opportunities. Jobs-First GAIN also strongly encouraged recipients to accept entry-level jobs and combine work and welfare in the short-term. Due to limited space and funding constraints, only long-term recipients were required to participate in Jobs-First GAIN and there was typically a long waiting list to enter the program. And while sanctions were imposed for those not participating, there were still no time limits on receiving welfare.

CalWORKs ushered in yet another version of welfare-to-work programs. Now all families receiving welfare benefits are required to enroll in county welfare-to-work programs and participate in work-related activities, including assessment, job search/job clubs, and, of course, employment as a contingency for receiving cash assistance unless exempt.[2] CalWORKs recipients must participate in a designated number of hours of work activities, as of 1999, 32 hours a week for single parents and 35 hours a week for two parent families or face sanctions and penalties. Financial sanctions, typically the reduction of the adult portion of the welfare grant, can be imposed when participants fail or refuse to comply with CalWORKs requirements, refuse to sign a welfare-to-work plan, fail to show proof of satisfactory progress in an agreed upon activity, or quit or refuse a job and do not have a good reason for doing so.

Los Angeles County has maintained and strengthened the work-first approach in their CalWORKs welfare-to-work program, L.A. GAIN, by now providing additional pre-employment services including childcare and transportation subsidies. Upon entering LA GAIN, recipients attend an orientation and appraisal session, and unless they are exempt or already employed, enter the job search phase. Recipients are enrolled in Job Club, a three-week activity designed to help participants find full or part-time employment. Participants are required to treat Job Club as if it were an actual job: to dress appropriately, report on time, and participate actively in the workshops. During the first week of Job Club, recipients participate in a job-finding skills workshop, which provides information on work behaviors and attitudes, employer expectations and dress code requirements, and résumé and interview preparation. After the workshops, recipients must engage actively in supervised job search; they make

calls to prospective employers using phone banks and travel to job interviews. The goal is 50 calls and five interviews per day - filling out 5 job applications and bringing back business cards as proof.[3]

The expanded L.A. GAIN program began serving recipients in 1997, but it took about a year to enroll all eligible persons because of the difficulties in quickly expanding capacity. As of May 2000 nearly 100,000 adults were enrolled in Los Angeles County's CalWORKs GAIN program; over three-quarters of participants were heading single parent families and the remaining were in two parent families (California Department of Social Services 2000). Of the nearly 79,000 single-parent heads enrolled in welfare-to-work activities, nearly 18,000, or just under 25 percent were working in unsubsidized employment. The rate of employment for two-parent family adults was slightly higher, with over one-third (35 percent) working in unsubsidized employment.

The emphasis on work-first is not due just to its short-term effectiveness (relative to the human-capital approach) but also to the realities imposed by time limits under TANF. Finding paid work is a necessity given that benefits are scheduled to end in the near future. The alternative is a permanent loss in income with no replacement. The remaining question is what type of jobs are welfare recipients finding. Employment outcomes are determined by both the characteristics of the recipients and the employment opportunities available to them.

Recipients and Work First:

Because the work-first model emphasizes finding paid work as quickly as possible, outcomes depend heavily on the amount of marketable skills that recipients bring to the labor market. Although the welfare population is far from being homogenous, this group has distinctive traits that place them at a disadvantage in the labor market. Most have limited education and work, and face a number of barriers that limits their employment opportunities. The short-term outcomes are predictable. Most find employment in low-wage occupations, and employment tends to be unstable.

The educational attainment of recipients is very low. Nationally, 47 percent of adults receiving welfare in 1998 failed to complete high school (U.S. Congress 2000). The profile for the Los Angeles County welfare caseload is similar to the national statistics. In 1999, 41 percent of welfare recipients participating in GAIN did not have a high school degree and two-thirds of the Los Angeles County welfare-to-work caseload has a high school degree or less (UCLA Lewis Center for Regional Policy Studies 2000).

Along with limited educational attainment, most recipients have limited work experience.[4] Nationally, less than 9 percent of recipients reported earnings from employment in 1994, and even after the advent of welfare reform only 35 percent of TANF families were employed in 1998 (U.S. Congress 1996 and 2000). The same is true for Los Angeles, and this can be seen in the experience of a cohort of recipients over a two-year period ─ from the end of 1996 through the end of 1998, a period that covers the passage of the PRWOA but prior to the full enrollment in GAIN in Los Angeles. Of those who were initially on welfare at the beginning of the period, 40 percent had no paid work experience during the entire two-year period (Houston, Ong and Law 1999).

Aside from education and work experience, other characteristics of welfare recipients also make entry into the labor market problematical. The overwhelming majority of welfare-to-work participants in Los Angeles are single-parent females, nearly half have children under the age of 4, and more than three-quarters are nonwhite. Racial and gender discrimination in hiring, still found in the entry-level job market, may further limit job opportunities (Holzer 2000). Heading a single parent household and balancing childcare responsibilities and work obligations also affects the ability of recipients to find and maintain employment. In addition, many recipients are spatially isolated from available jobs, and inadequate transportation limits the geographic area for job search and work commutes. These factors do not preclude many from finding a job, but they certainly restrict the types of jobs they can take.

Given recipients' limited marketable skills and other employment barriers, most find work in what can be considered the entry-level labor market. This market is often used to describe the cluster of jobs that require short-term training and limited education and skills. Most entry-level positions are filled by less educated workers with limited specialized vocational skills. The jobs typically offer low wages,

have high job turnover and provide little room for advancement. Prior to welfare reform, the welfare recipients who had some employment were heavily concentrated in this sector (Bartik 1997). Over two-thirds of jobs held by recipients nationally were concentrated in a few occupational niches, specifically sales, administrative support, food services and other service occupations. The average hourly wages for these occupations are extremely low, and job turnover tends to be high.

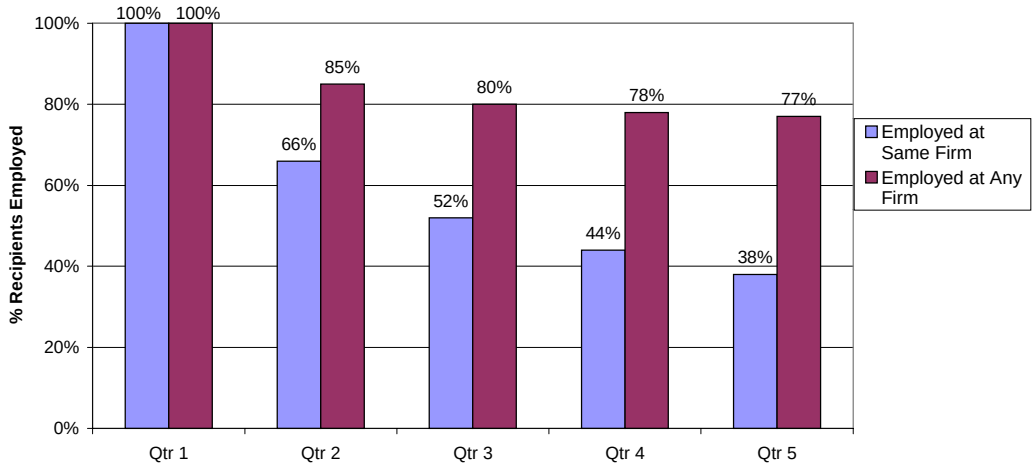
A similar pattern has materialized in Los Angeles under welfare reform. Table 1 presents information on the 20 leading occupations employing recipients in Los Angeles County.[5] Nearly all of the leading occupations of recipients are comprised of low-skill jobs. Cashiers comprise the leading occupation of employed welfare recipients, but the three administrative support occupations—receptionists, office clerks and secretaries - collectively employ more recipients. Jobs in the personal services are also prominent, including childcare providers, babysitters and home-care helpers. An overwhelming majority of firms require no more than a high school education for workers in these leading occupations.[6] Generally, recipients receive the "prevailing" wage for entry-level workers in Los Angeles that are employed in these occupations.[7] In the cases of administrative support positions and care giving occupations, recipients appear to earn less than the average entry-level employee in these occupations. This may result from less work experience in these occupations than other entry-level workers, which should improve as the result of increased and sustained labor force attachment as advocated by work-first welfare reform.

Among the twenty leading occupations of welfare recipients, only five pay hourly wages high enough for a full-time, full-year worker to raise a family of three out of poverty, and none approached the hourly wage required to keep a family of 4 above the poverty limit.[8] In nearly all of the leading occupations, welfare recipients earned average hourly wages between $6 and $7; the median hourly wage hovered around the $6 level, with many recipients earning minimum wage. Ironically, caregivers are the worst off in terms of wages. Childcare workers and care providers are the only two occupations with average wages below $6.00.

Table 1: Top 20 Occupations of Employed Recipients

OCCUPATIONS	Average Hourly wages Received	Prevailing Entry Level Hourly Wage	Firms Requiring no more than a High School Education
Cashier	$6.09	$6.12	79%
Sales	$6.41	$6.35	64%
Clerk	$7.05	$7.16	57-89%
Child Care	$5.09	$6.25	--
Packer	$5.97	$6.01	88%
Receptionist	$7.12	$7.20	63%
Housekeeper	$6.19	$6.19	81%
Care givers	$5.85	$6.22	66-75%
Assembler	$6.10	$6.26	91%
Telemarketer	$6.25	$6.93	93%
Laborer	$6.44	$6.00	--
Security Officer	$6.57	$6.60	81%
Warehouse	$6.22	$6.75	--
Waitress/Food Server	$6.23	$5.93	63-92%
Certified Nurse Assistant	$6.71	$6.73	80%
Driver	$6.84	$6.11	82%
Maintenance	$6.57	$6.23	83%
Customer Service	$7.21	$8.07	70%
Helper	$6.00	$6.00	--
Clerical	$7.21	$8.56	--

Figure 2: Employment Status of Recipients, Initially Employed in Quarter 1



The problem facing the working recipient is not just low wages but also a lack of employment stability. [9] This is not a new problem. Among Los Angeles recipients who had recently exited the welfare system in 1996, 38 percent did not work continuously over the following two years (Houston, Ong and Law 1999). This pattern has been repeated for a more recent period, as can be seen in figure 2. After one year, only three-quarters were still employed. This, however, does not take into account turnovers that result in changing employers. More striking, after one year, less than two-fifths were still with their original employer.

The data also show some but limited opportunities for upward mobility with an uneven distribution in changes in earnings. From the first to the fifth quarter, nearly half (48 percent) of working recipients experienced an increase of $250 or more in quarterly earnings, while over a third (38 percent) experienced a decrease of $250 or more in quarterly earnings. The remaining workers (14 percent) essentially saw no or very little change in earnings. The typical (median) change was about $150 in quarterly earnings. Moreover, most of the increase was concentrated at the bottom half; the typical workers in the top half did not on average experience any increase in quarterly earnings. While there is no information on hourly wages or hours worked for this cohort, the statistics suggest that the earnings gains came primarily through working more hours rather than increases wages. Despite the overall gains in quarterly earnings over the year, most working recipients remained at poverty level incomes.

Recipients and the Entry-Level Labor Market

Analyzing personal characteristics provides a partial picture of the employment outcomes for recipients, and it is possible to gain additional insights by examining the characteristics of firms hiring recipients. An examination of the "demand side" provides important information on how recipients are being absorbed into the labor force, their opportunities for employment stability and promotion and the availability of employer-provided benefits. Given the low educational attainment and work experience of the vast majority of recipients, we focus on entry-level employment, which is defined as jobs requiring a high school education or less, although people with higher educational attainment may fill these jobs.[10] The information reported below comes primarily from a survey of firms with entry-level positions.[11] Of the 3.5 million private-sector jobs in Los Angeles County approximately four in ten are entry-level jobs, totaling over 1.4 million jobs. [12]

Overall, approximately six-in-ten firms report having entry-level job opportunities. However, this is rather misleading because of the large proportion of all firms that are very small operations, with less than 50 employees. [13] In this size category, only 55 percent of firms have at least one entry-level

position, and these small firms account for less than a quarter of all entry-level positions.[14] On the other hand, firms with more employees are more likely to have at least one-entry level position. Nearly all firms with over 50 employees report having entry-level employment opportunities. Over 90 percent of firms with between 50 and 250 employees report having at least one entry-level employee, and these medium-size firms account for roughly another quarter of all entry-level positions. Likewise, nearly all firms with over 250 employees (91 percent) had at least one entry-level position in the firm, and these large firm employ slightly over half of all entry-level workers.

Certain industrial and occupational sectors depend more on entry-level workers and offer more entry-level job opportunities. The bulk of entry-level employees are employed in blue-collar (45 percent) and service sector (40 percent) industries, with the remaining 15 percent employed in white-collar industries.[15] The blue-collar workforce is composed of a much larger proportion of entry-level workers with nearly six-in-ten blue-collar jobs being classified as entry-level, compared to five-in-ten service sector jobs and less than one-quarter of white-collar jobs. The ten most often cited entry-level occupations include receptionists, office clerks, janitors, secretaries, sales clerks, cashiers, general laborers, drivers, and warehouse workers. Not surprisingly, all of the commonly cited entry-level positions are also included among the top twenty occupations employing welfare recipients.

The entry-level labor market is a very dynamic segment that generated at least 650,000 new hires per year during the late-1990s.[16] The high ratio of entry-level hires to total entry-level jobs (45 percent) is due to both high turnover and job growth. Job turnover, including layoffs and quits, is the most common source of entry-level job vacancies, accounting for one-third of openings filled by recent hires. Temporary and seasonal employment account for another 30 percent of recent hires, while entry-level positions resulting from new job growth make up about one-quarter of hires. It is likely that job growth will continue into the near future. Nearly three-in-ten (29 percent) firms expect their entry-level workforce to increase in the upcoming year, and less than 5 percent anticipate declines in entry-level employment. The high hiring rate, then, provides recipients with numerous opportunities to apply for a job.

To fill entry-level positions, firms often use multiple recruitment methods. Referrals from current employees are by far the most common, with over three-quarters of the positions filled in 1999 utilizing this method. Employers use this method because it provides a relatively inexpensive way to screen applicants (Thomas 1997). The quality and reliability are assured because the referring employees are often held accountable for the performance of the new hire. Given this expectation, current employees are likely to refer trusted friends and relatives; thus, referral recruitment is heavily embedded in relatively closed social networks, which can disadvantage many welfare recipients. Firms, however, also use other recruitment methods that are more open. The next most frequently used recruitment method is want ads applicants (47 percent) followed by walk-in applicants (39 percent) These methods are consistent with the job-searching approach used by the Job Clubs component of GAIN, which emphasizes approaching employers for application and responding to job advertisements. However, it is important to note that these approaches reach only two-thirds of all entry-level vacancies.[17]

Recipients have not only applied for entry-level jobs, but they have secured many of the positions for which they apply. Working recipients comprise about 3 percent of total private-sector employment at the end of 1999 and they make up about 8 percent of total entry-level employment.[18] Their impact on new hires is even greater, accounting for about a sixth of all new hires. Recipients, however, are not randomly distributed throughout the entry-level labor force. The distribution of recipients is affected by how well they match with the needs of the firm.

The entry-level labor market is far from being homogenous because hiring criteria vary from firm to firm with respect to skill levels and work experience. About 35 percent of new entry-level jobs do not require a high school education. Hard skills, such as writing and math, do not appear to be as important as oral communication skills. About 10 percent of new entry-level jobs are in firms where math skills are very important for the position, and about two-in-ten firms assign high importance to writing skills. On the other hand, oral communication skills are very important. Over six-in-ten new entry-level jobs are in firms that consider oral skills to be very important. Less than a quarter of new entry-level jobs are in

firms that consider any type of work experience to be very important, while 36 percent of new entry hires are in firms that place a high importance on specific work experience relative to the available job. The heterogeneity in job requirements across firms means that it is possible that even highly disadvantaged recipients may be able to find a job.

The relatively low marketable skills of recipients, even within the context of the entry-level labor market, translates into a concentration of recipients in the less desirable segments of this market. The concentration is not due to differences in firm size because there is very little difference in the distribution of employed recipients and the distribution of all entry-level jobs along this dimension. There are, however, differences by sector. Recipients are underrepresented in blue-collar industries, and this may be due to the fact that the overwhelming majority of recipients are female, while many blue-collar industries are male-dominated. What is particularly striking is the disproportionate under-representation in high-wage firms, those firms where the average quarterly payroll per worker is more than $3,000. While over a fifth of all entry-level jobs are in these firms, only a tenth of the recipients are. Recipients are also more likely to work in firms that do not require a high school education for entry-level employment. Recipients are also more likely to work in firms with a high turnover rate. On the average, 14 percent of all entry-level jobs end in a turnover per year; however, recipients work for firms where the turnover rate is 26 percent. While we do not have any information on the actual number of turnovers for recipients, the data do show that they face a greater and substantial risk of being terminated.

Even along dimensions where working recipients encounter the same employment conditions, the overall limitations imposed on all entry-level workers have potential adverse impacts on recipients. A good example of this is employer-provided health insurance. Generally, recipients are employed in firms that offer health insurance benefits to their employees. Nearly two-thirds of recipients work in firms that offer health benefits to entry-level employees, and over half work in firms that offer coverage to both the employees and their dependents. However, despite the fact that a majority of firms offer health coverage, there are barriers to recipient employees accessing these benefits. Recipients may be ineligible for benefits due to work status or job tenure restrictions, or may choose not to enroll due to cost constraints. Recipients are often employed in part-time positions and are ineligible for insurance coverage because few firms offer the benefit to their part-time employees. Another barrier is the probationary period.

Table 2 : Distributions of Entry Level Jobs, Entry Level Recent Hires, and Working Welfare Recipients by Firm Characteristics

Firm Characteristics	Entry Level Jobs	Recent Hires	Recipients
Firm Size			
Less than 50	23%	34%	27%
50-249	23%	36%	20%
250+	53%	30%	53%
Average Monthly Wage			
Less than $1500	44%	38%	49%
$1500-$3000	34%	44%	41%
More than $3000	22%	18%	10%
Industrial Sector			
Blue Collar	45%	31%	31%
Service	40%	42%	50%
White Collar	15%	28%	19%

The average waiting period is three months, although some firms report waiting periods up to one year.

The high level of job churning prevents many recipients from getting employer-sponsored health insurance. Finally, the vast majority of firms require employees to pay out-of-pocket costs for insurance coverage. Nearly three-quarters of jobs held by recipients require employee premium contributions of insurance coverage. Recipients may be unwilling or unable to afford the costs for insurance and choose not to enroll in their employer's health plan even if they are eligible. Those in firms without employer-provider insurance, ineligible for the benefits, or unable to afford the premiums continue to depend on Medi-Cal (California's Medicaid program) at least in the short-term.[19]

Another problem encountered by recipients is a low promotional rate that is endemic to the entry-level job market. Recipients work for firms where the rate of promotions out of initial entry-level positions is only 9 percent. This means that the odds of moving up are only one-third of that of being laid off or quitting. In other words, entry-level jobs have provided a way for recipients to meet the welfare-to-work requirement, but those jobs do not guarantee economic self-sufficiency.

Conclusion

Although it has been over four years since the enactment of PRWOA and two years since full implementation of CalWORKs welfare-to-work programs, the final outcomes are still largely unknown. Many effects of this dramatic shift in social policy will not materialize for several more years. As we stated at the beginning of this chapter, so far welfare reform is a glass half-full and half-empty. Welfare-to-work, with its work-first emphasis, has contributed to a dramatic reduction in the number of people receiving welfare, and the welfare caseload has continued to drop.

The jury is still out on the ultimate success of the work-first approach to transitioning people off of welfare and into paid employment. The available data points to a problematic start. Most employed recipients are finding low-wage jobs with limited opportunities for upward mobility and wage growth within the firm. However, it is unclear whether the jobs are the first rung on a career ladder that requires changing jobs. Many work-first proponents argue for the importance of getting a foot in the door, asserting that work experience is a launching pad to higher wages and employment stability. Despite this optimistic view, how many recipients will be fortunate to find upward mobility in the labor market remains unanswered questions. What is obvious from the available information is that many working recipients face numerous barriers that threaten to confine them to dead-end jobs paying poverty-level wages.

The challenge then is to develop comprehensive and effective post-employment programs. In recognition that the transition does not end with the initial job placement, Los Angeles County has adopted the following policy:

> Post employment services are designed to help participants stay employed and obtain a better job with wages, which enable self-sufficiency from CalWORKs dependency. The goal of post employment services is to provide participants with the information, resources and tools to retain unsubsidized employment, improve career potential, and to achieve economic self-sufficiency at a living wage prior to exhausting their five-year lifetime welfare limit.

Currently the L.A. GAIN program offers post-employment services including continued case management, job retention services, career assessment, opportunities for continued educational development, skills training designed for upward career mobility, individual mentoring, and rapid re-employment services. This approach is a step in the right direction, but far too few have been able to take advantage of the services.[20] Achieving the goal of moving recipients from welfare to economic self sufficiency will require a much more aggressive effort to reach those "playing by the rules" and working. Post-employment services must be widely available and promoted and more importantly must be adequately supported in terms of funding and staffing if recipients are going to find careers rather than dead-end jobs.

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Endnotes

[1] Although Los Angeles' welfare caseload has decreased substantially, it lags behind the caseload drops at the national and state levels. By January 2000, the national caseload, based on annual figures, declined by 53 percent since its peak in 1994. The California caseload peaked in March of 1995 with just over one million total welfare cases in the state. Calculating caseload declines for the state are problematic due to administrative changes in caseload reporting. Based on available information, we estimate that California's caseload has declined about 42 percent from March 1995 to September 1999.

[2] See http://dpss.co.la.ca.us/gain/exemptions.cfm for situations for which exemptions apply. Some of the most common exemptions include persons under 16 or over 60, pregnant women, disabled persons, youth aged 16-18 who are full-time students, and persons providing care for an ill family member or a child under age one.

[3] See http://dpss.co.la.ca.us/gain for more information on GAIN activities and participation criteria.

[4] In recognition of recipient's limited experience in the labor market, the CalWORKs welfare to work program includes "soft skills" training, which focuses on issues such as appearance, attitude and reliability.

[5] The occupational and wage data on recipients comes from participants in the LA County GAIN for September 1999.

[6] Based on Occupational Employment Survey (OES) data provided by California's Employment Development Department. Some occupations for recipients include two or more detailed categories in the OES data.

[7] The prevailing entry-level hourly wage estimates presented in the table are based on calculations by the California Employment Development Department (EDD) in which they estimate the entry-level wage by taking the mean of the bottom third of the wage distribution for each occupation.

[8] A recipient employed full-time, full-year (40 hours a week, 52 weeks a year) would need to earn $6.80 to raise a family of 3 out of poverty and $8.20 to raise a family of 4 out of poverty.

[9] Low wages and job instability together produce a significant number of workers with more than one employer for any given quarter. Other researchers estimate that one-fifth of welfare workers in Los Angeles County have two or more employers in the same quarter, indicating either that they are working two jobs or have changed employers in the three month period. See Drayse, et al 2000. According to employment profiles generated from a survey of welfare-to-work participants in L.A. County, approximately 10 percent of recipients work more than one job suggesting that the other 10 percent changed jobs within the quarter.

[10] Several definitions are used by researchers for the entry-level or low-wage sector of the labor market, including wage levels, earnings and hours worked, skill level and educational attainment. Educational attainment is often used as a measure of the low-wage sector because it does not depend on actual wage or earnings levels, but is highly correlated with them. See Bernstein and Hartmann, 2000 for more information on the entry-level labor market.

[11] The entry-level employment profiles are based on a recent survey of employers in Los Angeles County that contains information on 570 firms operating in Los Angeles County that had at least one entry-level position. Of the 725 firms successfully contacted who consented to participate, 570 reported having positions available to entry-level employees. These entry-level employment estimates are based on the firms that consented to be surveyed; non-respondents may have different levels of entry-level employment.

[12] The total number of jobs comes from 3rd quarter of 1999 EDD data, while the number of entry-level jobs is estimated from the entry-level employer survey. The proportion of entry level employment is consistent with available labor force information, which indicates that the "high school or less" definition includes 44 percent of the U.S. and Los Angeles County workforce. See Mishel et. al 1999 for national estimates. The Los Angeles County estimate comes from analysis of the Current Population Survey, March Supplement, 1999 performed by the Lewis Center for Regional Policy Studies.

[13] According to EDD statistics for the 3rd quarter of 1999, 81 percent of all firms had less than 10 employees, and an additional 14 percent had 10-49 employees. Many of the smallest firms include the self-employed and highly specialized operations

[14] According to EDD statistics for the 3rd quarter of 1999, a third of all jobs are located in firms with less than 50 employees; however, it is likely that at least a sixth of the paid workers are self-employed owners.

[15] Industry categories were created based on the Standard Industrial Classification (SIC) codes. Blue-collar industries include Agriculture, Forestry, and Fishing (01-09), Mining (10-14), Construction (15-16), Manufacturing (20-39), Transportation, Utilities and Communications (40-49) and Wholesale Trade (50-51). Service industries include Retail Trade (52-59) and Services (70-79, 88). White Collar industries include Finance, Insurance, and Real Estate (60-69) and Services (80-87, 89).

[16] This is a conservative estimate because it is based on firms that had operated continuously from 1998 when the sample was drawn for the survey to 1999 when the survey was conducted. Consequently, the estimated number of new hires does not include positions created by newly established firms.

[17] Interestingly, referrals from public agencies are far less frequently used recruitment methods. Moreover, only a minority of firms is willing to use tax subsidies for hiring disadvantaged workers. Both the relative reluctance to accept government referrals and subsidies implies that many firms are unwilling to go out of their way to seek recipients.

[18] Recipient employment levels are calculated based on the proportion of the total number of recipients employed by the firm during 1999 to the total number of entry level employees in the firm.

[19] Welfare reform 'de-linked' Medi-Cal from CalWORKs/TANF so that eligible families could maintain health insurance even if they did not receive cash aid. However, Medi-Cal caseloads have declined despite eligibility expansions along with CalWORKs/TANF caseloads, although not as dramatically. Medi-Cal is available to working recipients if they earn less than 100 percent of the federal poverty level. Additionally, Transitional Medi-Cal is available for recipients with higher earnings for up to two years after leaving public assistance. Participation rates in the transitional Medi-cal program are relatively low.

[20] According to state welfare-to-work information, less than 2000 welfare to work participants were receiving post-employment services in Los Angeles County as of June 2000.

CHAPTER 14

UNION ORGANIZING IN CALIFORNIA: CHALLENGES AND OPPORTUNITIES

CAROL ZABIN WITH KATIE QUAN AND LINDA DELP

Introduction

At the beginning of the twenty-first century, unions in California are showing signs of revitalization. After many years of decline, union membership rose from 2,154,000 to 2,286,000 in 1999, and for the first time in several decades, the percentage of the California workforce that is unionized grew slightly, to 16.6 percent. The new growth is a consequence of aggressive efforts by a number of key unions and local, state, and national AFL-CIO bodies. This chapter explores labor's efforts to meet the challenges for revitalizing its movement in the current era, focusing on new approaches and strategies for increasing union membership.

The decline of the U.S. trade union movement over the last thirty years is a well-known story, and although there is little scholarship devoted specifically to California, the state's experience parallels that of the nation. Union decline is a consequence of a multitude of forces, including a loss of employment in some highly unionized industries and a restructuring of other industries via subcontracting and outsourcing and organized labor's own emphasis on servicing current members rather than organizing new ones (Goldfield 1987; Moody 1988). Above all, the loss of union membership is the result of a renewed offensive by anti-union employers who have fought unions on a variety of fronts, and have successfully shaped government labor policy to their advantage. Changes in the implementation of the National Labor Relations Act and limits of the law itself have undermined workers' fundamental right to organize. Quoting a recent Human Rights Watch report (2000),

> In the United States, millions of workers are excluded from coverage by laws to protect rights of organizing, bargaining, and striking. For workers who are covered by such laws, recourse for labor rights violations is often delayed to a point where it ceases to provide redress. When they are applied, remedies are weak and often ineffective. In a system replete with all the appearance of legality and due process, workers' exercise of rights to organize, to bargain, and to strike in the United States has been frustrated by many employers who realize they have little to fear from labor law enforcement through a ponderous, delay-ridden legal system with meager remedial powers.

While the experience of union decline in California is not unique, California may be the forerunner of change. California is certainly the bellwether for the new environment that labor must operate in. As the nation's leading receiving state for new immigrants as well as the center of the economic transformations associated with the information technology revolution, California presents unions with the double challenge of a new workforce and a new economy. Recent events suggest that

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the AFL-CIO has made a commitment to be much more welcoming of immigrants and people of color than at many other times in its past. This effort is producing significant successes, many of them in California. Labor has made fewer inroads into organizing new or restructured industries, however, and this remains one of its key challenges.

The decline of unions has contributed to increasing income polarization in California, now well documented in numerous studies (Reed et al. 1996; Reich this volume). Unions in California, as elsewhere, have provided a measure of well-being for workers not only by improving wages, but also by providing key benefits such as health insurance and pensions. If California is to pave a more equitable path of development in the future, surely unions will play a fundamental role. As we will see, some of the most important efforts to improve the lot of low-wage workers are being led by unions, not only as they fight their traditional battles over distribution of revenues within firms, but also as they exert their political clout to reform state economic policy and improve the climate for organizing.

This chapter describes the current state of unionization in California, painting a picture of union membership in the state using available quantitative data. The article then turns to an analysis of the emerging strategies California unions are using as they attempt to rebuild and grow, documenting new directions and innovative practices.

California unions by the numbers[1]

In 1999, growth in union membership in California led the nation, with a net increase of 132,000 members. California, the nation's most populous state, also has the most union members, with 2,286,000 in over 1,300 local unions. California ranks 15th among all states in union density, however, with union members comprising 16.6 percent of the workforce (BNA 2000).

Unionization patterns in California typify national trends in many respects. Figure 1 shows the downward trends in union density (the percentage of the work force that are union members) in California and the nation from the peak period in the mid-fifties to 1978, with a steady decline in the ensuing years[2]. Private sector density has fallen particularly sharply and now stands at 10.2 percent both nationally and in California in 1999. In manufacturing employment, union density is significantly lower in California (8.5 percent), compared to the nation (15.6 percent), reflecting the low rates of unionization among manufacturing workers in Los Angeles, now the nation's largest center of manufacturing (Wolff et al. 1998). Figure 2 illustrates the distribution of union members by broad sector in California and the nation, showing that union members in manufacturing only account for 7.2 percent of all union members in California, less than half the national figure. The same figure shows that public sector workers account for a greater proportion of union members in California (48.3 percent) than in the nation as a whole (42.8 percent).

A disaggregated look at union density in California by industry illustrates one of the major challenges unions face: low union density in a number of key sectors that account for a large portion of employment in the state. Figure 3 shows the distribution of employment by detailed industry, divided by union and non-union membership. The figure illustrates relatively high union density in public administration (47.5 percent), educational services (46 percent), transportation and communication (37 percent), utilities (54 percent), hospitals (24 percent), construction (24 percent), the entertainment industry (17 percent) and social services (17 percent). All other sectors have less than 10 percent union density. In fact, other than educational services, the five sectors that employ the largest percentage of workers all have union density of less than 10 percent. As worrisome, the sectors that are predicted to account for the largest absolute job growth over this decade also have low union density, as shown in figure 4[3]. Union density is negligible not only in the high tech sectors, which are spread among business

services, professional services, and manufacturing, but also in a number of service and manufacturing sectors that have become vast fields of low-wage work.

Union membership patterns for key demographic groups are quite similar in California and in the nation as a whole, with a couple of notable exceptions. Union density among women is 15.5 percent in California compared to only 11.4 percent in the nation as a whole, due largely to the higher rate of public sector unionization in the state. In addition, union density among African Americans is 26.7 percent in California compared to 17.2 percent in the nation as a whole, again due to their overrepresentation in public sector employment in the state. But since they are only 6.3 percent of the state's population, they comprise only 10.8 percent of the state's union members (see figure 5).

Union density among Latinos is slightly higher in California (13.4 percent) than in the nation (10.4 percent), and among Asians, California's density (12.9 percent) is quite close to the nation's (12.3 percent). However, because California's population has a greater proportion of Latinos and Asians than other states, unions also have a higher proportion of these groups, and a lower proportion of whites, also shown in figure 5. While nation-wide, 81 percent of union members are white, in California 55.9 percent are white, reflecting California's new status as a majority minority state.

California has more foreign-born residents than any other state, and the immigrant workforce will continue to grow in numbers and in importance in the coming years. To date, unions have not succeeded in recruiting immigrants at anywhere near their proportion of California's working population. Native-born workers are more likely to be union members than the foreign-born, with union density at 19 percent and 10.4 percent respectively. However, as Waldinger (2000) and Milkman (2000) noted for the mid-1990s, naturalized citizens, who are more likely to be long-term immigrants, have comparable rates of unionization than California workers as a whole. In the period 1997-1999 naturalized citizens in California had slightly higher unionization rates than all California workers, at 17.1 percent. However, non-citizens, who are more likely to be more recent arrivals, have extremely low rates of unionization, at 8.5 percent. Again, even though union density of the foreign-born is below average, they comprise a full 20.6 percent of all California union members, simply because of their high overall presence in the California workforce (as shown in figure 6). This is a striking contrast to the nation as a whole, where the foreign-born comprise only 9.5 percent of union members.

These demographic data should by no means be construed to reflect the willingness or preference of different groups to join unions. Instead, it reflects the distinctive employment patterns among different ethnic groups and whether or not the sectors that these groups are concentrated in were unionized at some point in the past. As Milkman (2000) points out, the low rates of unionization among foreign-born Latinos is due to their low numbers in public sector employment, where union density is high, and their high numbers in private sector employment, especially low-wage services and manufacturing, where union density is low.

The rewards of unionization are especially large for groups that are otherwise concentrated at the low end of the wage scale and that have largely been left out of the benefits of the new economy (Freeman 1993). The union wage premium, measured here as the ratio of the average wage for union members and non-union members within each demographic group, while important for all groups, is especially large for African Americans and Latinos, as well as for women, as shown in table 1. Latino union members, on average, earn $15.80 per hour, compared to an average of $10.50 for Latino non-union members. This is especially important because Latinos have experienced the greatest wage declines of any ethnic group in California over the 1990s (Benner et al. 1999).

The union wage premium also varies by educational level, as shown in table 2. While union members with 12 years of schooling or less earned on average approximately $15 per hour, compared to

an average of $10.28 for non-union members with the same education. For workers with more than a high school education, the union/non-union wage differential is much smaller, at $21.25 compared to $19.25 per hour. While this is no surprise, it has important public policy implications, since workers with less education have experienced large decreases in wages over the last twenty years (Benner et al. 1999; California Budget Project 1999). Unionization provides an important means of protection for these workers, who are otherwise punished in the marketplace. And while more education and training have been put forth as the most important means to increase wages of these workers, employment projections suggest that there aren't enough jobs requiring higher levels of education and training to go around. The California Employment Development Department (EDD) predicts that almost 40 percent of jobs created between 1993 and 2005 will require no more than a few weeks of on-the-job training (California Budget Project 1999).

This quantitative description of unionization in California highlights several important points that will be explored in more depth in the next section. First, given the importance of immigrants in the current and projected California workforce, the low unionization rate among this group presents both a challenge and an opportunity. As we will see, the AFL-CIO has taken seriously the challenge of organizing the nation's immigrant work force, with California, and in particular Los Angeles, as the main testing ground.

Secondly, the data show in stark terms that unions must confront the issue of low density in key and growing sectors of the economy. This is true not only for the high-tech sectors, where unionization is negligible, but also large parts of the low-skilled service economy. Devising strategies to build density in these new or restructured industries is a key challenge for the future.

Finally, given the severe problem of wage polarization in the state, the data reveal that unions can perform an important social function by protecting wages among key groups of workers. Unions still serve an important equalizing function by raising the wages particularly of people of color and the less skilled and educated, groups that have largely been left behind in the new economy (see Reich, this volume). For African Americans, high union density and high-wage premiums for employment in union jobs have protected a significant part of California's black middle class. For Latinos, the fastest growing segment of the work force, union wage premiums are also high, but access to union jobs has been limited. For Asians, the story is less obvious because the union wage premium is much smaller. However, a more disaggregated look at Asian subgroups might reveal clearer patterns.

The "New Unionism" in California

The net addition of 132,000 union members in 1999 stands in stark contrast to the bleak picture of persistent union decline painted in the last section. Who are these new union members, what sectors do they work in, and what strategies did they use to win union representation?[4] While answers to these questions are incomplete, an analysis of what we do know can inform the larger question: Can we expect this scale of success to continue in the years to come?

The unionization of the 74,000 homecare workers in Los Angeles County in 1999 was by far the biggest organizing victory of recent decades. It is important to note, however, that there were other significant victories in 1999, although our information is extremely incomplete because the AFL-CIO just began systematically recording information on organizing victories in the year 2000. The most prominent organizing victories include ten thousand UC graduate students affiliated with the United Auto Workers, who won union recognition from the University of California after at least 17 years of struggle. The American Federation of Teachers organized 3,000 classified (non-teacher) employees. The Service Employees International Union (SEIU) also organized several thousand hospital workers

and about six thousand public sector workers. And there were others. In the year 2000, when the AFL-CIO started systematically recording organizing victories, 35,000 new members joined unions as a result of organizing from January through July.

The Homecare Workers Victory

This success was the culmination of a 12-year organizing drive by the SEIU, and followed smaller victories for homecare workers in the five Bay Area counties of Alameda, San Francisco, San Mateo and Santa Clara and Contra Costa County, where about twenty thousand home care workers have unionized. The fact that it took place in Los Angeles, and that about half the new homecare union members are immigrants (state-wide the homecare workforce is even more heavily immigrant) is extremely significant, illustrating both the immensity of Southern California's low-wage workforce and the potential for unions to tap the discontent such working conditions generate. The homecare victory illustrates three important approaches that unions are using in a variety of other sectors in California and the nation. These are carrying out grassroots organizing among the low-wage, immigrant workforce, building coalitions with community-based organizations and/or consumers, and using political clout to improve the climate for organizing.

SEIU built an industry-wide campaign that was tailored to the unique features of the homecare industry; features that presented both obstacles and opportunities. Homecare emerged in its current form as a result of the creation of the 1973 federal In-Home Supportive Services program, designed to save states money by delivering services in the homes of the care recipients. The system was favored by some advocacy groups because help with daily activities such as cleaning, cooking and bathing could allow the elderly and people with disabilities to live at home rather than in an institution or nursing home (White 1999). While ultimately funded by state and federal social service money channeled to counties, in practice, workers were hired by the "consumers" (care recipients) themselves, who were allocated quotas of homecare services according to income and disability criteria.

The union built a three-prong strategy tailored to the industry and consisting of: 1) grassroots organizing among the largely minority, immigrant, and female workforce, 2) establishing coalitions of homecare workers and care recipients, together with the endorsement of religious and community organizations, and 3) engaging these coalitions in passing legislation and establishing public policy that created centralized public authorities in each county that became employers of record with whom the union could bargain. Clearly, the fact that homecare is ultimately funded by the government presented a unique opportunity. This allowed SEIU to use its political clout to design and implement policies to reorganize the industry. And because the in-home care system provided very uneven quality of care for consumers, it presented an opportunity for the union to form a coalition with community groups representing the sick, elderly, and people with disabilities to improve the quality of services.

Grassroots organizing was the first pillar of the SEIU's strategy. The SEIU spent twelve years building a base with homecare workers through on the ground grassroots organizing. The union spent substantial resources locating the African American and immigrant women who work alone in thousands of private homes dispersed throughout Los Angeles County. The difficulty of recruiting union supporters was compounded by the high turnover rate among homecare workers, in some years approaching 50 percent. The union worked at becoming the workers' advocate even before they indicated support for unionization, filing wage claims, providing assistance to workers in finding jobs, and organizing to raise the state minimum hourly wage from $3.75 to $4.25 (Delp and Quan 2000).

The union also spent considerable effort building a coalition with the consumers that homecare workers serve. This was no easy task because the communities of elderly and people with disabilities

distrusted the union and feared the consequences of a strike. Moreover, some of the advocacy groups had been the chief proponents of the decentralized system of homecare services that put hiring and firing in the hands of the consumers. Yet as long as the consumers were deemed to be the employers, workers were implicitly pitted against care recipients, who in turn were unable to provide higher wages and benefits. Eventually, in what proved to be a critical realignment of forces, the union was able to unite workers and consumers with community groups to lobby county officials to establish a county-based government body as an employer-of-record and seek more funding for in-home services. The unity of workers and care recipients generated enough political strength that county officials were forced to take action (White 1999; Quan 1999).

The union's public policy strategies involved a series of legal initiatives that lay the basis for homecare workers to join unions, including both suits and legislative proposals. Most significantly, in 1993, the homecare workers coalition spearheaded state legislation that empowered counties to establish employers-of-record with the authority to bargain collectively with homecare worker unions, providing the necessary legal framework for counties such as Los Angeles to create a public authority. To date, the union and its allies have been able to establish county-based public authorities (which have become employers-of-record) in nine counties throughout the state. At every step of the way, policy advocacy has been accompanied by active mobilizations and street demonstrations by homecare workers, care recipients, and religious and community supporters.

Actual wage increases have been modest but significant. In San Francisco, homecare workers now earn more than $9.00 an hour and have medical and dental benefits, as a result of the city's living wage ordinance, but this has not been replicated in the rest of the state. However, the first steps to stabilizing and restructuring the industry have been taken, as most public authorities provide worker training programs and a job placement registry based on seniority to help match available workers with care recipients. Higher wages and better benefits for homecare workers will only be achieved through state and local budget increases for in-home services, and will require ongoing partnering with coalitions of supporters to provide the political clout necessary to demand increased funding.

New Trends in Organizing

In recent years, unions in California have launched a number of new campaigns that incorporate some of the key strategies that led to the success of the homecare workers campaign. While their cumulative effect on the growth of union membership has yet to be proven, these new approaches are clearly having an impact. While it is very unlikely that the scale of success represented by the homecare workers will be repeated on a consistent basis, there are other large-scale organizing drives underway. Major multi-union organizing strategies are underway at both the Los Angeles and San Francisco International Airports, where tens of thousands of airport workers are employed by private businesses who lease or contract with the public agencies responsible for the management of the airports.[5] Other large union campaigns include the Hotel Employee and Restaurant Employee union's unionization efforts in the Bay Area and Los Angeles, and the SEIU's efforts in the health care industry.

These campaigns are not unique, but rather represent ongoing efforts to revitalize the labor movement. This revitalization is based on the same approaches that led to success in the homecare workers campaign. They include a new interest and commitment to carrying out grassroots organizing among low-wage immigrant and minority workers, a new focus on building coalitions and organizations that increase labor's political clout, and using that political clout to implement a new arsenal of policy tools that improve the climate for organizing.

Organizing Immigrants

While once thought of as the hardest to organize, there is enough experience in California to convince many organizers that immigrants are often more militant and willing to organize than native-born workers (Milkman 2000b; Delgado 1993; DeFreitas 1993; Wells 2000). Throughout the 1990s, immigrants waged successful union campaigns in a range of low-wage immigrant dependent industries, including homecare, janitorial services, hotels construction, and even manufacturing. These campaigns account for a significant portion of the growth of union members in the state, and will eventually counteract the under-representation of immigrants in California unions documented above.

Immigrant organizing has shifted the center of gravity of the California labor movement from the traditional labor stronghold of Northern California to Los Angeles, the most common destination for new immigrants in the state and the nation. Milkman writes, "to the surprise of many observers, Los Angeles emerged in the 1990s as a key site of labor movement experimentation and as a showcase for successful immigrant organizing, an embryo of the broader revitalization effort that the new AFL-CIO leadership and its allies are currently attempting to jump-start."

Successful immigrant organizing in Los Angeles is quite recent. While the International Ladies' Garment Workers' Union (ILGWU) had been the first union in recent decades to seriously attempt to organize Latino immigrants in the late 1970s, it was more successful in training a new generation of Latino organizers and union leaders in Los Angeles than in increasing union membership among Latino immigrants (Milkman 2000b). The first large-scale breakthrough in immigrant organizing was the SEIU's Justice for Janitors campaign, whose 1990 strike and victory marked the unionization of over 6,000 workers and was the largest private sector immigrant organizing success since the farmworkers in the 1970s. SEIU conducted a carefully orchestrated campaign to recapture previously unionized building services in many urban areas around the country, but their most spectacular success was clearly in Los Angeles, where Central American and Mexican workers, many of whom were undocumented and had political experience in their home country, re-energized the struggle. Quoting Milkman (2000b: 7-8):

It dramatically demonstrated not only the potential for galvanizing immigrant workers into a militant, solidaristic force for labor movement revitalization, but also the critical role of union leadership in that process. The Justice for Janitors campaign combined grassroots rank-and-file mobilization, on the one hand, with careful strategic planning on the part of experienced union leaders with access to extensive financial resources as well as expertise, on the other…. The organizers deliberately avoided the traditional NLRB electoral system in favor of an innovative approach that combined careful research into the power structure of the industry, strategic planning, and militant, media-savvy rank-and-file mobilization tactics.

The janitors were the first, but not the only immigrant organizing drive that occurred in the early 1980s. Shortly after the janitors' victory, there was a five-month strike by Mexican drywall workers, who used their ties to their villages-of-origin to build sufficient solidarity to close down hundreds of job sites dispersed throughout Southern California, effectively halting residential construction. About 2,400 drywall workers doubled their wages and became union members when the contractors finally buckled and the Carpenters Union negotiated a contract for them (Milkman and Wong 2000a). Another well-known case was the wildcat strike at American Racing Equipment wheel factory, where 1,200 Latino workers voted to be represented by the Machinists and have received substantial pay and benefit gains in the ensuing years (Zabin 2000). Like the "drywalleros," this campaign was spontaneously initiated by rank and file workers, rather than initiated and directed by the union, as was the case of the janitors. While the American Racing and drywall campaigns needed organized labor to bring a successful

conclusion to their efforts, the tremendous spontaneous militancy illustrates the willingness of immigrants to fight for their rights and take the risks necessary to unionize.

Throughout the 1990s immigrant organizing also occurred in other parts of the state, albeit on a small scale. The United Farm Workers refocused their efforts on organizing and had successful campaigns unionizing over a thousand workers on several rose, mushroom, and vegetable farms and vineyards in the San Joaquin Valley, the Central Coast region and the Napa/ Sonoma area. The Justice for Janitors campaign extended their success to the Sacramento area. The hotel workers in San Francisco and Oakland have organized in a number of hotels in the Bay Area, and the International Longshore Workers Union has organized immigrant workplaces in several waste and recycling facilities and a small manufacturing plant in the Bay Area.

These successes are remarkable because in addition to the unfavorable climate for organizing that faces native and foreign-born workers alike, undocumented immigrant workers face additional obstacles. Organizers cite the numerous ways employers use the threat of deportation as a weapon against undocumented workers who are seeking to organize into a union. While labor law in theory protects the rights of undocumented workers to join unions, it does not allow undocumented workers who are fired for union activity to be reinstated to their jobs. Thus, in practice it severely undermines undocumented workers' right to organize (Bacon 2000).

In a historic move, the AFL-CIO has made a new commitment to bolster the rights of immigrant workers. In February 2000 the AFL-CIO announced a bold new pro-immigrant policy initiative, calling for a broad amnesty for undocumented workers and an end to employer sanctions.[6] This historic declaration marked a profound evolution inside labor, from a perception that immigrants undermine labor's power because they are willing to work for less and unwilling to join unions, to a perception that their militancy can be of major importance in labor's revitalization. Soon after the announced policy change, the AFL held hearings in several cities around the country to promote a new amnesty and a series of protections for immigrants seeking to unionize. In Los Angeles, 20,000 people showed up for the event, whereas less than 1,000 had participated in other cities. For the first time, labor was at the head of a large coalition of church-based groups, immigrant rights advocacy groups, Mexican and other immigrant hometown associations, and other community-based organizations.

Whether the AFL can parlay their new leadership role advocating for immigrant rights into large-scale organizing successes is yet to be seen. But California proves that immigrant organizing has great potential, if unions are willing to spend the resources to carry out comprehensive campaigns in immigrant-dependent industries.

Strengthening Labor's Political Power Through Coalitions and Institution-Building

One of the key components of successful unionization campaigns in recent California history is the judicious use of labor's political clout to influence elected officials and to shape local and state public policy. Labor has built political power by engaging in electoral politics and building coalitions with community allies.

First, central labor councils and the California Labor Federation have strengthened their traditional capacity to influence electoral politics by emphasizing grassroots electoral mobilization and attempting to promote accountability of elected leaders after they are in office. Los Angeles provides a powerful example once again. Under its first Latino leader, the Los Angeles County Federation of Labor- the second largest central labor council in the nation-has become an electoral force in determining outcomes for city, county, state, and federal elected offices. It has done so by using union money and harnessing a huge cadre of workers for voter registration and turn-out campaigns that are

largely directed at newly naturalized Latino immigrants. Although the focus on new citizens is strongest in the L.A. County Fed, other central labor councils and the California Labor Federation have had important and quite consistent electoral victories at the local and state level.

Second, labor has begun to reach across historical divisions to form coalitions with communities of color and various kinds of community-based organizations. The homecare case-where success could not have been achieved if unions had not joined forces with advocacy and community groups representing people with disabilities and the elderly- is again the preeminent example. But there are private sector cases as well. For example, in the early 1990s the Hotel Employees and Restaurant Employees (HERE) Local 2 won recognition and a contract at the Parc 55 in San Francisco by launching a full-blown boycott with substantial community support. In that case, although the owner of the hotel was a civic leader in the Asian community, the union won support from an important segment of the city's Asian community groups and elected officials who were concerned about the wages and working conditions of the largely immigrant hotel workers. That community support was strengthened during the Marriott campaign, when the union linked demands for union neutrality and for hiring of local residents. Community allies continue to be a pillar of support for that on-going campaign.

The California labor movement has also increased its political influence through the creation of five new labor-linked non-profit research and education organizations: Working Partners USA, affiliated with the South Bay Labor Council in San Jose, the Los Angeles Alliance for a New Economy, the Center for Policy Initiatives linked to the San Diego Central Labor Council, the East Bay Alliance for a Sustainable Economy, started by the HERE union in Oakland, and the new California Works Foundation created by the California Labor Federation just this year. These institutions have been instrumental in constructing new relationships with community organizations, particularly with groups representing or advocating for immigrants and people of color. They have led living wage coalitions, created faith-based labor support committees, and have attracted substantial amounts of foundation funding to work on economic justice issues. They have produced research that highlights the problem of income polarization in the state and used that research to influence public opinion and help shape policy debates among elected officials.

Using Political Power to Support Organizing

Local unions, labor federations and labor-linked nonprofits have not only increased labor's influence over local and state elected officials, but also have begun to use this influence to help organizing drives. This has been very successful in Los Angeles, as Milkman (2000) notes:

> L.A. labor has parlayed its political clout, in turn, to obtain leverage in ongoing worker organizing efforts. The April 2000 janitors strike once again provides the shining example. The SEIU launched the strike with official endorsements from 48 local elected officials, and by the end had won support from politicians across the board - including members of both houses of the state legislature, the entire city council (some members of which were arrested for civil disobedience in support of the strike), and even Republican mayor Richard Riordan. The strike became a litmus test of loyalty to the formidable County Fed. for L.A.'s politicians, and above all for aspiring Latino politicians.

But unions have gone beyond the use of politicians to garner media coverage, behind the scenes pressure and public support for organizing and contract campaigns. The unfavorable climate for organizing unions in private sector firms has led unions in California and elsewhere to fight for legislation at the local and state level that helps lower employer resistance to unionization in specific industries. In the case of homecare workers described above, SEIU successfully lobbied to create public

authorities at the county level which formalized the status of homecare workers as public employees, where employer resistance is much less fierce. Home health care workers are exceptional because their entire wage bill is ultimately paid with public dollars. However, unions and their allies have devised strategies to improve the climate for organizing for a number of other private sector businesses over which the government has some influence.

The most visible new strategy in this arena is the living wage movement, which ties public money to labor standards, including the right to organize. Labor, and particularly the labor-linked nonprofit organizations, have led successful living wage campaigns in both southern and northern California, improving wages for thousands of workers employed by businesses who contract with local governments, receive business subsidies, or are tenants on land owned by municipalities or public authorities. Living wage policies are part of a larger union strategy to create labor standards for employers who contract with, receive assistance from, or operate on land owned by local government entities.

In San Francisco, which passed a living wage ordinance in July 2000, more than 22,000 low-wage workers have or will experience wage increases to a minimum of $9.00 per hour, rising to $10.00 per hour in 12-18 months, with a cost of living adjustment in future years. In Los Angeles, another estimated 20,00 low-wage workers will receive increases to $7.25 per hour with family benefits and $8.50 without benefits when the living wage ordinance is fully implemented. In other cities, such as San Jose, Oakland, Pasadena and others, where the number of workers employed by city contractors is small, the ordinances have affected much smaller numbers of workers.

Living wage campaigns have supported organizing in a variety of ways. The simple moral appeal of the idea that workers deserve a living wage has allowed unions to build durable coalitions that can then influence local politics to make conditions more favorable for unions. In Los Angeles, the living wage coalition has been able to get involved in the approval process for new real estate developments and to directly raise the issue of wages and working conditions. In several cases, the coalition helped developers obtain the necessary municipal approvals in exchange for compliance with the living wage standard and union neutrality in the event of an organizing drive.

At the San Francisco Airport, where a living wage standard was passed for security personnel, the airport commission gave unions the responsibility of informing workers about their rights under the new policy. This has been a tremendous aid for the union organizing campaign because it has allowed organizers to approach unorganized workers in an official capacity. As part of this plan, the airport allowed organizers to wear airport security badges and full access to employee work and break sites. Thus, the living wage policy gave the union legitimacy with and access to the unorganized workers on airport property.

The San Francisco Airport organizing also has been facilitated by card-check language that the airport commission has now placed in all its leases with businesses operating on airport property. Card-check agreements allow unions to bypass the cumbersome National Labor Relations Board elections and gain recognition when more than 50 percent of the workers sign union cards. The precedent for this language is an ordinance introduced in San Francisco in 1997 which requires new hotels and restaurants built on city property to avoid labor strife by agreeing to card check language (Gordon 1997).

This set of local policies are all ways that unions can encourage unionization in a certain set of private firms-companies that sell goods and services to local governments or public agencies, lease property from them, are licensed or regulated by them, or receive subsidies or tax breaks from them. While by no means the only type of public policy that unions have used to improve their ability to organize, these are important new strategies that have yielded some success.

Conclusion

After many years of decline, California unions have engaged in aggressive new strategies to organize workers. Can these new approaches overcome the challenges of a new workforce and a new economy, and thus reverse the decades of decline in unionization that the numbers so starkly show?

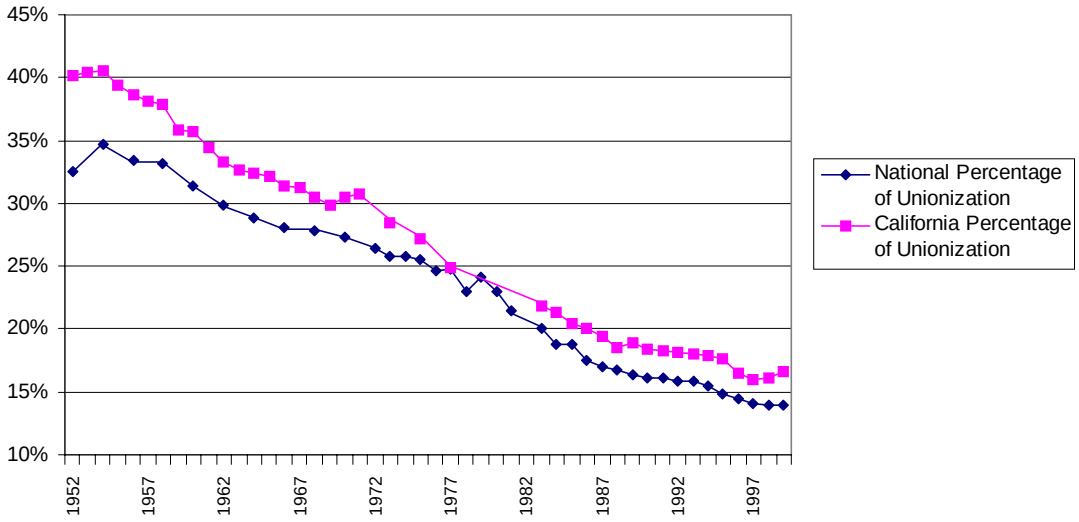
At the heart of labor's revitalization in California is the powerful mix of the awakening militancy among the mushrooming low-wage, largely immigrant workforce, the growing political strength of labor in local and state elected bodies, and the use of that political clout to improve the climate for organizing. Certainly, the growing focus on immigrants has the potential to reverse the persistent under-representation of immigrants among California union members and thereby vastly increase the numbers of union members in California. California is the testing ground for immigrant organizing for the nation, and success has been significant, albeit still at a relatively small scale.

However, the California labor movement has hardly begun to tackle the challenges of the new economy. Efforts to organize the engines of the California economy—industries related to information technology and biotechnology - have been few and far between. One exception is the effort by Working Partnerships, affiliated with the South Bay Labor Council, to organize the temporary workers in the Silicon Valley by simultaneously creating its own temp agency and organizing the workers within it. This is part of their larger strategy to adapt key features of craft unionism, such as portable benefits, union-centered job training, and control over job access via hiring halls, to the contemporary low-wage service sector. This experiment is still in its infancy, but represents an attempt to explicitly address the challenges of the new economy.

California unions have also had limited success organizing in large swaths of the private service and manufacturing sectors over which local governments have little leverage and thus the family of living wage-type policies are ineffective. These industries have either never been unionized or have been de-unionized due to outsourcing and subcontracting. The notable success in this arena that stands as an exception to the rule is the Justice for Janitors campaign, which we have noted due to the tremendous militancy of its immigrant workers. Another key to the success of the campaign was the union's capacity to exert pressure on the janitors' immediate employers the building services contractors by moving up the commodity chain to negotiate directly with building owners who employ the contractors.

Overall, unions are operating in a national legal and political environment that presents tremendous obstacles to organizing. Thus, even in cases where unions have shifted resources to organizing and committed to organizing new demographic groups and new or changing industries, winning is no easy feat. Since national policies are so problematic, unions are developing new strategies to lower employer resistance, often using their political clout to pass local or state legislation to improve the climate for organizing. This strategy takes tremendous resources, because it means fighting for a more evenly balanced labor relations' environment in every jurisdiction or industry in which unions are trying to organize. Without a major shift in the climate for organizing, unions in California as well as nationally face an uphill battle.

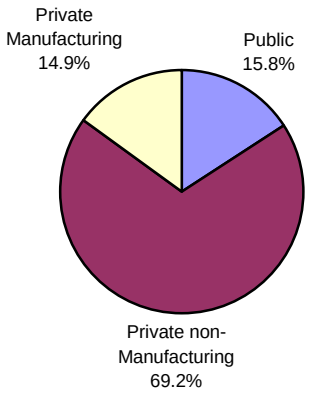
Figure 1: Union Density in California and the U.S., 1952-99



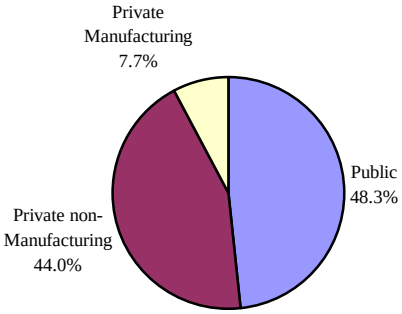
Sources: 1952-77 from The Declined of Organized Labor in the United States, table 1; and Union of Labor in California, 1987, table 2; 1978-99 from The Bureau of National Affairs, Inc. Union Membership and Earnings Data Book 1993-2000.

Figure 2: Sectoral Composition of Union Members

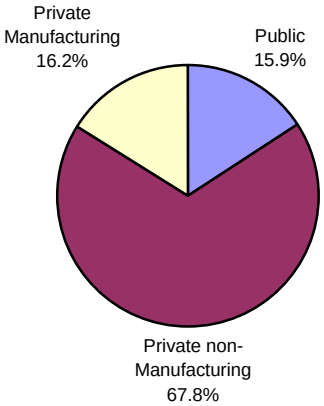
All Workers by Sector: California



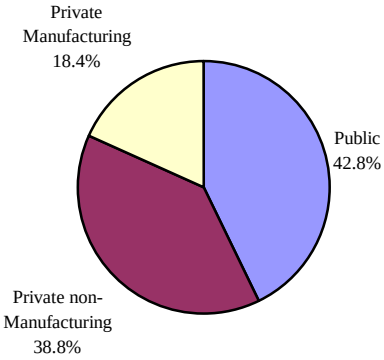
Union Members by Sector: California



All Workers by Sector: U.S.

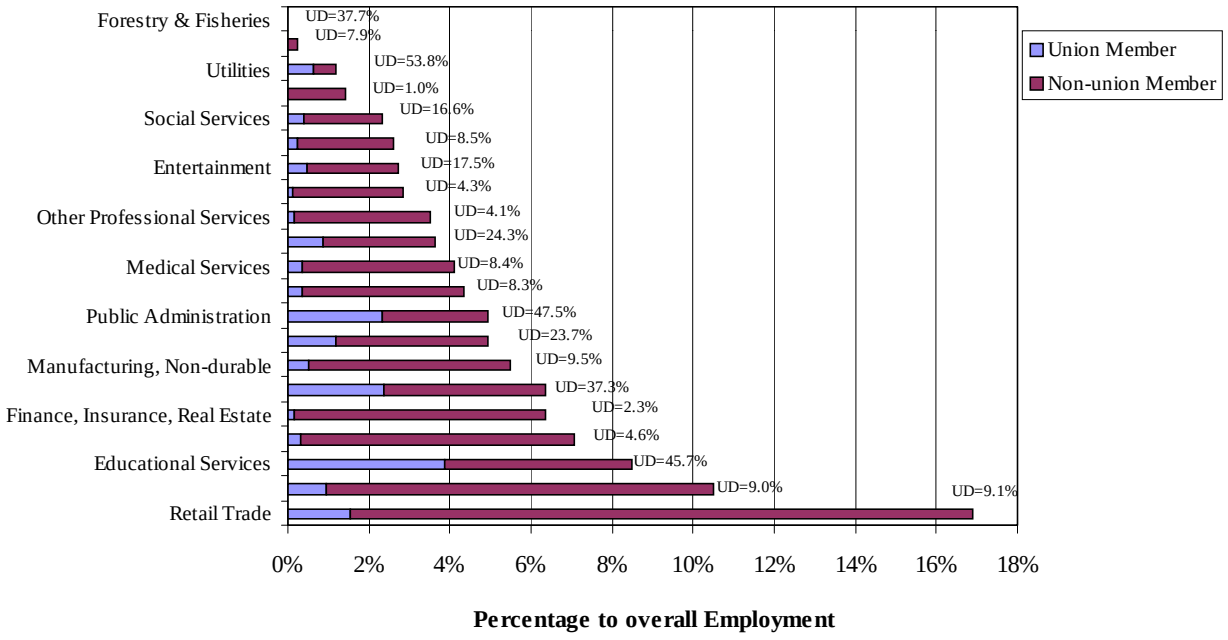


Union Members by Sector: U.S.



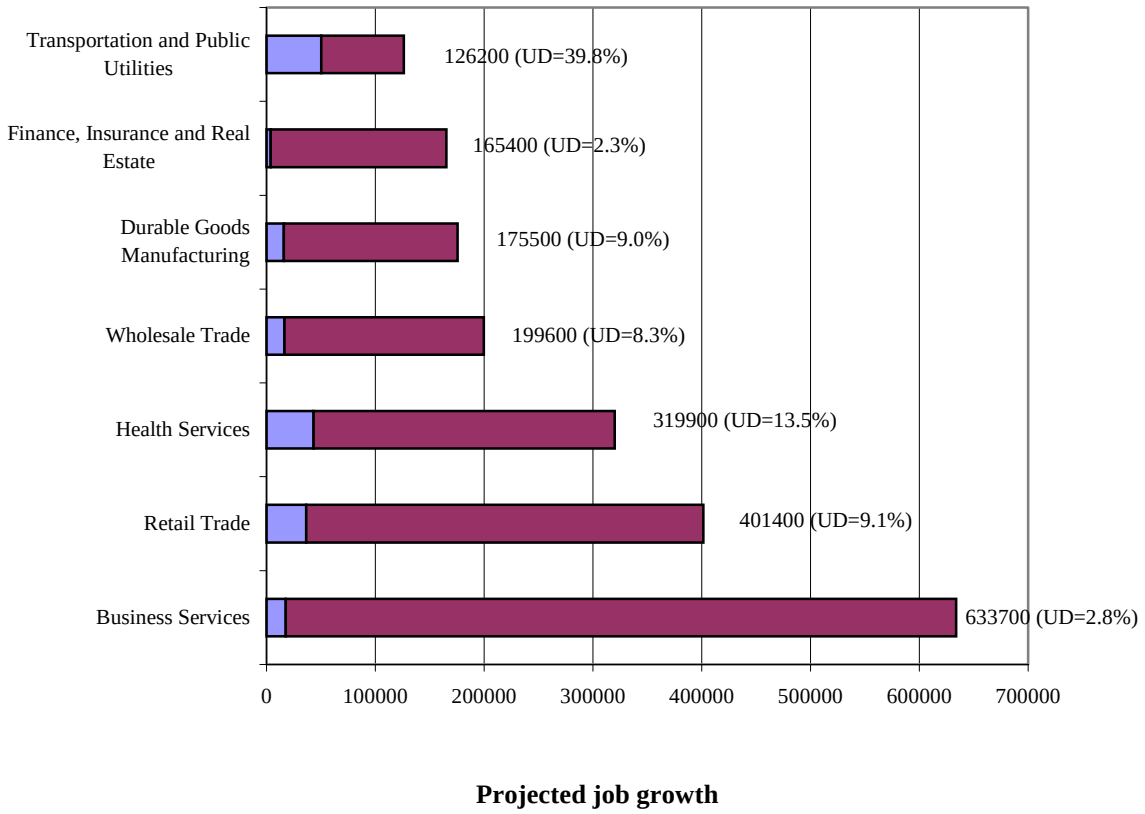
Source: CPS data, 1999, Hirsch and Macpherson.

Figure 3: Distribution of Employment by Detailed Sector with % union membership



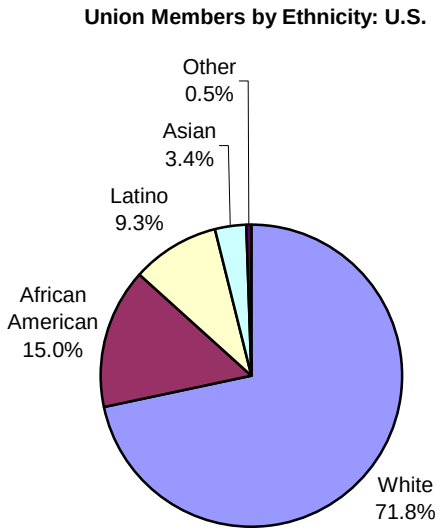
This figure shows the distribution of employment in California by detailed economic sector, with the percentage of union members and non-members in each sector. UD is the union density for the sector.
Sources: Reich and Hall data set, 1997-1999 CPS outgoing rotation file. Recalculated according to CPS's Major Industry Recodes at http://www.bls.census.gov/cps/bindcd.htm

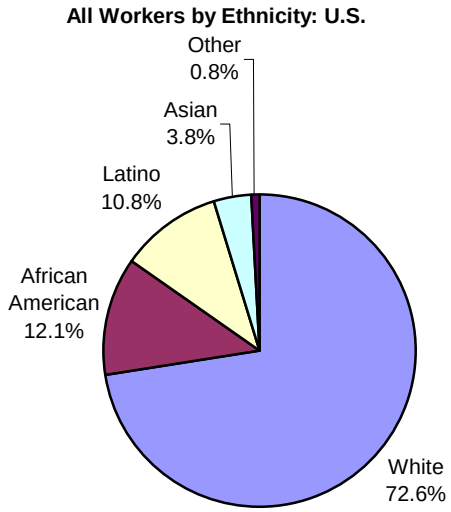
Figure 4: Union Density in Sectors with Projected Employment Growth over 100,000 between 1998 and 2008

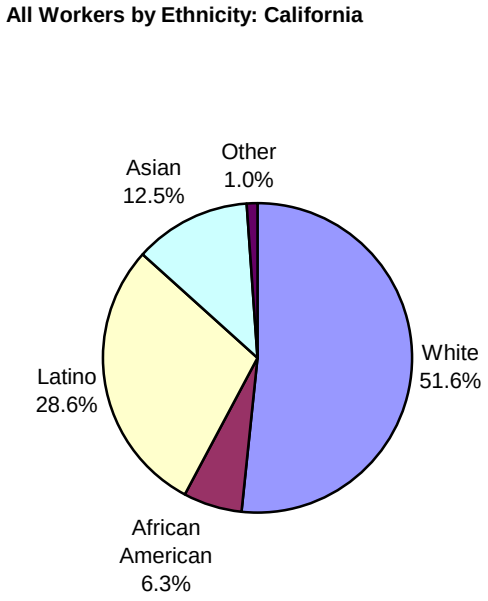


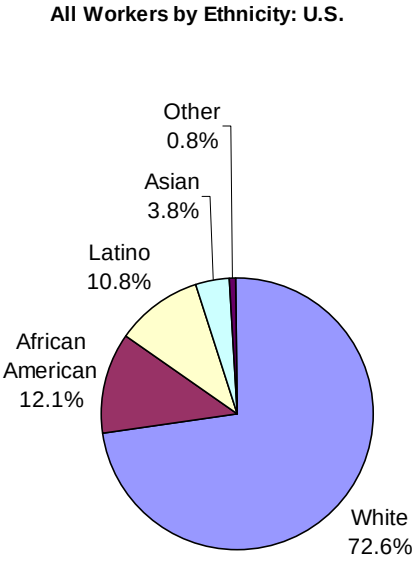
Sources: Employment growth data from labor market information at http://www.calmis.cahwnet.gov/file/indproj/cal$tb2.htm. Union density data from Reich and Hall data set, 1997-1999 CPS outgoing rotation file.

Figure 5: Ethnic Composition of Union Members



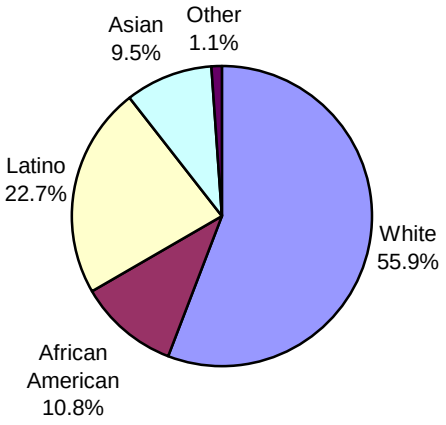




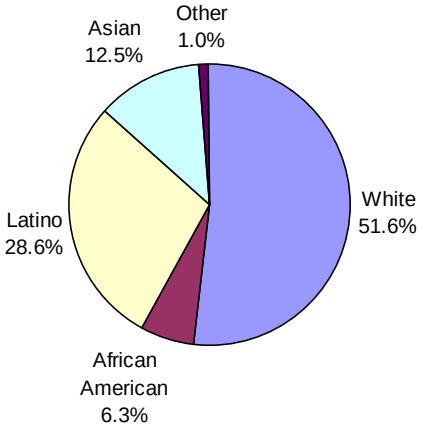


Sources: California data from Reich and Hall data set, 1997-1999 CPS outgoing rotation file; U.S. data from CPS data, 1999; Hirsch and Macpherson, various years.

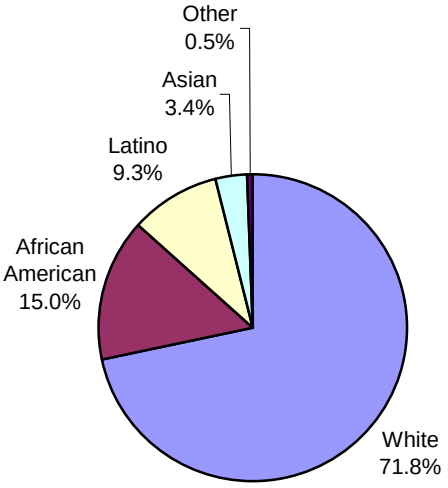
Union Members by Ethnicity: California



All Workers by Ethnicity: California



Union Members by Ethnicity: U.S.



All Workers by Ethnicity: U.S.

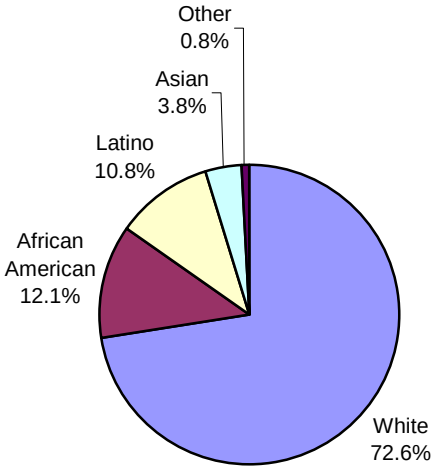
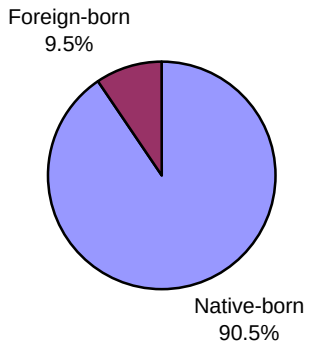
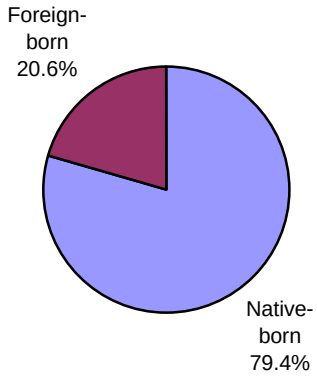


Figure 6: Native and Foreign-born Union Members

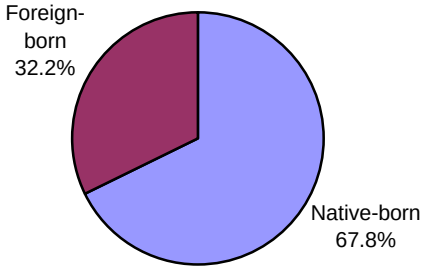
Union Members by Foreign/Native-born: U.S.



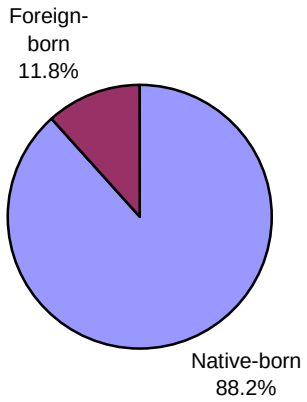
Union Members by Foreign/Native-born: California



All Workers by Foreign/Native-born: California



All Workers by Foreign/Native-born: U.S.



Sources: California data from Reich and Hall data set, 1997-1999 CPS outgoing rotation file; U.S. data from CPS data, 1999, Hirsch and Macpherson.

Table 1: Union Wage Premiums in California

	Union	Non-union	Union/non-union
Men	$20.60	$17.50	1.18
Women	$18.70	$14.00	1.34
White	$21.70	$18.90	1.15
African American	$18.20	$13.80	1.33
Asian	$18.30	$16.30	1.12
Latino	$15.80	$10.50	1.50

Source: Reich and Hall data set, 1997-1999 CPS outgoing rotation file.

Table 2: Union Wage Premiums by Education

	Union	Non-union	Union/non-union
High school or less	$14.94	$10.28	1.45
More than 12-year schooling	$21.25	$19.07	1.11

Source: Reich and Hall data set, 1997-1999 CPS outgoing rotation file.

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Endnotes:

[1] Data on unionization is quite limited, since most official sources do not ask questions about union membership. Since the California Department of Industrialization ceased its yearly survey of unions, the main governmental source for information about unionization in California and the nation is the Current Population Survey, which is used for this overview. Two sources for union data are used, both derived from the CPS. For the national data and the most aggregated California data, we have used data from the Bureau of National Affairs (Hirsch and Macphersohn, 1997. For the disaggregated California data we have used a data set provided by Reich and Hall, 2000 (see chapter in this volume for more details) that used the eighth month of the survey, commonly known as the outgoing rotation, and combined individuals for the years 1997-1999.

[2] Changes in data collection make comparisons difficult: the BLS series for the United States ends in 1978, while the California data was not collected after 1989.

[3] The categories are slightly different than the previous graph because the CPS density information was reaggregated to match the categories used by the California EDD's employment growth projections.

[4] This information was gathered from press accounts and communication with key union leaders, and is not a systematic overview of union growth. Union growth is the sum of new organizing victories and the growth of employment in unionized sectors, minus the loss of union members from closure or decline of unionized firms and union decertifications.

[5] At SFO for example, the campaign has organized 800 workers in 7 companies as of the date of this writing, and has on-going campaigns that target 3,000 more workers.

[6] Employer sanctions are part of the 1986 Immigration Reform and Control Act (IRCA), and make it illegal for employers to hire undocumented workers. This provision undermines the legal remedies for undocumented workers who are fired for union activity because they cannot be reinstated.

CHAPTER 15

ORGANIZING THE UNORGANIZABLE

EDNA BONACICH AND FERNANDO GAPASIN

Globalization is changing the nature of work in California, and nowhere is this more evident than in the manufacturing sector.[1] The ideal of a large, stable factory, where a union contract could ensure a continuing rise in the standard of living of workers, is a thing of the past, and the manufacturing unions are reeling as a result.

In Los Angeles, as a consequence of excellent electoral work and innovative, aggressive organizing, overall union density has climbed over 2 percent in the last four years, from below 18 percent to nearly 21 percent.[2] However, from 1988 to 1999 union density in the manufacturing sector in California has dropped from 21 percent to 9 percent statewide, and in the Los Angeles area, to 7 percent and dropping.[3] Manufacturing unions have lost membership in manufacturing in California, and a number of them have almost completely shifted their organizing emphasis away from their traditional bases in favor of sectors of the economy that they have deemed Aorganizable.@

Much praise and self-congratulation surrounds the labor movement these days. With new national leadership committed to organizing the unorganized, with a remarkable shift in orientation towards immigration policy, with a few outstanding organizing victories, especially the homecare workers campaign, and with the L.A. janitors= strike that brought national and international attention to the growing injustice and inequality in the city, the California labor movement has reason to feel a new optimism. Nevertheless, it should be noted that most of the gains have occurred either in the public sector, where sympathetic government officials can pressure employers to settle, or in the service sector, where unions can be assured that the jobs will not flee the country once they are organized.

The picture is more bleak when we look at the manufacturing sector. California has suffered from major deindustrialization of its heavy industries, including steel, cars and tires, but it has also experienced a reindustrialization in light manufacturing. California, especially Southern California, has become the manufacturing capital of the United States, with more manufacturing jobs than any other state in the union. In 1999, California had 1,922,800 manufacturing workers, making up about 12 percent of civilian employment. While the number of employed manufacturing workers was almost the same as the number in 1983 (1,927,000), its importance in civilian employment dropped from 17 percent. There have been fluctuations in between, but the California manufacturing workforce has hovered around 2,000,000 workers. About one-third of the state's manufacturing workers are located in Los Angeles County, and 40 percent of those are employed in non-durable

manufacturing.

Immigrants and people of color are overrepresented in manufacturing jobs. Using the 1990 Census, and focusing on Los Angeles County, we find that, for all 4.5 million occupations, 55.3 percent of employees were people of color, including Latinos. However, for the 722,383 manufacturing jobs (defined as operators, fabricators and laborers), 79.2 percent were people of color. Looking more specifically at the 378,934 machine operators, assemblers and inspectors, the percentage jumps to 85.3. Latinos made up the largest groups of workers, at 64.5 percent for operators, and 72.7 percent for machine operators. Given that Latinos were 34.6 percent of the Los Angeles workforce, one can see how overrepresented they were in manufacturing--much higher than in services, where they made up 49.7 percent of service industry employees. We assume that many of these workers are immigrants. According to another source, the *Statistical Yearbook of the Immigration and Naturalization Service*, 62 percent of Mexican immigrants and 46 percent of Central American immigrants take manufacturing jobs when arriving in the United States (U.S. Immigration and Naturalization Service 1997).

Manufacturing wages lag behind those of most other industries. Based on California EDD statistics, in March 2000, the statewide average weekly earnings for manufacturing workers was $581.09, in contrast to $840.38 for construction, $940.61 for communications and public utilities, and $662.58 for wholesale trade. Retail trade wages were lower than manufacturing, at $338.49. While overall, the manufacturing of durable goods earned a higher wage ($619.66) than non-durable ($527.47), there was considerable variation within both of these categories. Thus, the lowest durable goods industry, furniture and fixtures, had an average weekly wage of $452.69, whereas the highest, transportation equipment, averaged $779.58. In non-durables, the highest paying industry was petroleum and coal products, at $1,172.94, whereas the lowest was apparel and other textile products, at $345.82.

As of 1998, there were 57,535 manufacturing establishments in the state of California, of which 56.6 percent employed fewer than 10 workers. Only 3,991 manufacturing establishments (7 percent) employed 100 or more workers. Manufacturing firms may be bigger, on average, than other employers in the state=s economy, but they are still overwhelmingly small.

The Los Angeles Manufacturing Action Project (LAMAP), developed in the early 1990s, was based on the assumption that manufacturing matters; it is vital to any stable economy. LAMAP=s leaders were also cognizant of the fact that immigrant workers predominated in the manufacturing sector, and that they often worked under the most onerous and dangerous conditions (Delgado 2000). A series of articles appeared in the *Los Angeles Times* detailing the large number of industrial accidents, including deaths, among L.A.=s immigrant manufacturing workers (Freed 1993a, b, c). This series was one of the inspirations for LAMAP (to be discussed below).

In this chapter, we consider some possibilities for organizing in this important sector. Unlike the call for Aorganizing the unorganized,@ put forth by the national AFL-CIO, we are considering the challenge of organizing among those whom some union leaders consider to be Aunorganizable.@ The article is divided into three sections. First, we examine the changing nature of work and some of the challenges these changes pose for organizing. Second, we look more broadly at the challenges faced by the labor movement as a result of these changes. Third, we consider some possibilities for organizing in this difficult-to-organize sector. We define the labor movement to include not only the union movement, but also worker-organizing that occurs outside of the framework of traditional unions.

Globalization and the Changing Nature of Work

By Aglobalization@ we mean the contemporary phase of capitalism that gradually emerged in the 1960s and 1970s, and became full-blown in the 1980s. This phase, which we prefer to term global/flexible capitalism, involves a host of changes, including the deconstruction of the Welfare State, Reaganesque supply-side economics, privatization, lean-and-mean corporations, and, in general, the increased unfettering of market forces. Rather than dwell on all the causes, characteristics, and consequences of these changes, we focus specifically on how they have changed work. Here are some of the changes that have been occurring, with special focus on the low-wage, manufacturing sector.

More and more firms are contracting out segments of their work. They keep the most profitable sectors, and spin off the less profitable ones, engaging in arm=s length transactions with their contractors. By contracting out, companies avoid having to maintain a stable workforce through periods of unemployment. Instead, they use contractors and employ workers on an as-needed basis, substantially cutting their costs and increasing their flexibility. Contracting out has created a large number of firms, many of them small, who work on a contingent basis. The employees who work in these factories are thus made into contingent workers because of the character of their employer.

Contracting out can be devastating to unions. First, the contractors are not profit centers, so that a union contract cannot win much for the workers. Second, the competitive nature of contracting means that big companies will favor non-union over union contractors, and will shift production away from any contractor where labor militancy is brewing. Third, workers in contracting shops have little job stability, and their low wages do not allow them to pay full union dues. These factors tend to create a large and growing non-union sector among workers who are employed in contracting establishments. Many U.S. companies have learned that they can break unions by contracting out the work.

Another feature of globalization is offshore production. U.S. companies have been shifting production offshore to sites where labor is considerably cheaper. This has taken two primary forms: direct investment and contracting. In the latter case, externalizing parts of the work has taken an extreme form as the new levels of fragmentation have become worldwide. The manufacturing sector has been especially hard-hit.

The challenge of organizing a particular company=s production empire is multiplied enormously when it is spread around the globe. Offshore contracting enables transnational corporations not only to shift production to whatever country offers them the best deal, lowest wages, and most politically controlled workforce, but also to avoid labor trouble in any particular location by shifting to another one. If workers try to organize, they are faced with the threat that their factory will shut down and leave. While this may sometimes be a bluff, it has happened too many times not to carry weight. Thus, workers in a particular locale may win a hard-fought union battle only to find that their jobs have disappeared.

Another feature of offshore production, and of contracting out in general, is secrecy. In the apparel industry, for instance, TNCs typically hide their production sites, claiming that their contractors and sub-contractors are a protected business secret. This means that workers and unions have no idea where their fellow workers are employed, and must engage in significant expenditure of resources just to locate connected factories. Moreover, with flexible production, sites keep changing, so that the information problem is chronic.

Apart from secrecy, the shifting around of production means that the relationship with

particular TNCs is unstable. A particular maquiladora may do work for more than one TNC, and may have continuously changing relationships with those who send it work. This can make it impossible to organize all the workers for one particular TNC, since the workforce keeps shifting depending on where the TNC sends work.

Obviously, not all manufacturing firms are equally mobile. Some industries and industrial sectors are more regionally tied. These less mobile sectors may afford easier organizing opportunities. Nevertheless, the challenge remains: how do we organize in those industries that can flee? Globally mobile industries and sectors are a growing component of the economy. They cannot be set aside as unorganizable.

Along with relocating production, there are other new devices that fragment the firm still further, and externalize the employment relationship. Examples include: the treatment of workers, including industrial homeworkers, as independent contractors; employing temporary and part-time workers who are treated as the employees of the temp agency; increasing the proportion of temporary and part-time workers who have lower wages than regular employees, no benefits, and no claims on the firm. Part-time and contingent workers now account for one-quarter of the U.S. workforce. They typically suffer from low wages and few benefits, reduced employment security, barriers to advancement, and low productivity. They are much less unionized than the rest of the labor force (Carre, duRivage and Tilly 1994).

The changing employment forms have been accompanied by a rise in the number and proportion of workers who are women, people of color, and immigrants, including undocumented immigrants. Marginalized, low-paying jobs tend to be filled by the segment of the population with the least rights.

This creates all kinds of potential conflicts. Old, unionized, often white male workers, find their goods jobs evaporating, to be replaced by the more Aflexible@ jobs both here and abroad, and there is a tendency to blame the less advantaged workers for their woes. In other words, racism and sexism are promoted under these conditions of shift. Second, the already unionized workers feel little inclination to reach out to the less advantaged workers because they are Adifferent,@ or do not speak the same language. Moreover, the economic gulf between the sectors of the working class makes the prospect of organizing the new entrants appear daunting. Third, union officials tend to be entrenched, and to come from the ranks of the old, mainly white male, membership. They often do not understand the cultures and communities of the newer entrants, and have difficulty representing their interests. Meanwhile, the disadvantaged workers sometimes do not trust the union leaders, and feel that they do not have their interests at heart.

One of the consequences of the above changes is greater employment instability. Many workers in the low-wage sector cannot count on any form of employment stability. Not only do they shift from job to job within a particular industry, but some also shift from one industry to another.[4] Women move between garment work, domestic service, janitorial services in offices and restaurants, and street vending. Men shift from restaurants to serving as day laborers in construction and other fields, to gardening and micro-entrepreneurial enterprises. These workers have truly been transformed into the ideal capitalist proletariat: unskilled Ahands@ that can be moved to whatever job currently needs to be filled. We call them the hyper-proletariat. They may be trained briefly to fill the specific needs of the job, but no serious training is given to enhance their skills. However, the industries that employ them maintain their own coherence, even though the workers themselves have little reason to maintain a commitment to a particular industry.

Thus, at the level of capital, industries such as apparel, shoes, toys, etc. each have their own

competitive structure and their own community of key actors who know each other and form organizations to pursue their collective interests. The floating character of the low-wage segment of these industries, in contrast, is disorganized as far as work is concerned. Of course, they have various forms of community organizations and affiliations, including church memberships, soccer clubs, and clubs of origin. But the fluidity of their work lives makes organizing around the job a temporary activity, at best. As a result, the social structures of community become more important to the individual than the social structures connected with the job.

The Challenge of Organizing in a New World Order

Most U.S. unions are still operating under the assumptions of the Welfare State. They mourn the passing of the so-called golden age of industrial relations in this country, when government, industries and unions all worked in partnership, and seek to reestablish that period. This is why they keep supporting the Democratic Party, hoping against all the evidence that the Party will turn the clock back to a happier era. But as Democratic presidents and governors keep demonstrating, they have no intention of reestablishing the Welfare State. They will not protect unions. They will not rewrite the National Labor Relations Act (NLRA) into an effective instrument for protecting the rights of workers to organize. The truth is, a profound change has occurred, and there is no way to turn it around and get back to the Agood old days.@[5]

We need to develop means for pursuing the struggle for improving conditions for workers that look seriously at capitalism as it actually is, not as we would like it to be. This means accepting the fact that the large plant with a stable workforce is mainly a thing of the past, at least in many sectors of manufacturing. Most private sector workers do not work in such facilities any more. They have a much more tenuous hold on their positions in the workforce. Many workers make such low pay that they live in constant poverty, on the edge of economic disaster. They lack the wherewithal to sustain a long and costly fight against their employer, and they have many other unmet needs. They are the working poor.[6]

The labor movement needs to develop new strategies for organizing and fighting in this changed environment. A great deal of very worthy talking and writing has been done about changing the tactics of organizing, especially among non-traditional workers. These include such things as: employing organizers who speak the language of the workers, developing worker-activists among the union members, developing ties between unions and community organizations, representing and giving political support to the broader concerns of the workers and their communities, developing close relations between workers and organizers through constant house visits, etc. These are all important, and long overdue in many unions. However, they do not address the strategic question of how we can effectively fight against global/flexible capital.

We believe that new models of organizing are called for under these changed conditions. We believe that the old systems of organizing, based on the ability to win a contract in a particular plant, may be obsolete for many hundreds of thousands of workers. If it is tried, they will almost certainly lose the struggle, and their jobs as well. For this reason, we are calling for a complete and open rethinking of the old methods of the labor movement.

This said, we should note that some unions have been very successful in organizing non-traditional workplaces. SEIU has been outstanding in this regard, with its Justice for Janitors campaign, and its ability to organize homecare workers in Los Angeles County (Waldinger et al. 1998). But there have been mitigating circumstances even in these difficult cases. While building owners could shift cleaning contractors, they could not move the buildings themselves, giving a

certain stability to the struggle--in contrast to many manufacturing workers whose factories simply pull up and leave. Similarly, the homecare workers= campaign rested on the union=s ability to leverage the state=s role in funding this service. Bringing the state into labor struggles is certainly a key possibility, but it is more accessible to certain industries than others. The reality is that the vast majority of low-wage, manufacturing workers have neither advantage. What are they to do to enhance their power? What can the labor movement offer them to help them engage in effective struggle?[7]

Thoughts About New Strategies

As is usually the case, it is much easier to criticize than to come up with good alternatives. Drawing on our own experience, as well as on efforts being made by others around the country, we lay out some possibilities for new strategic approaches. We come to this task with considerable humility, knowing that we do not have the answers to the intense challenges. We are sure that every idea we present here has been already thought of by others. Moreover, there are a million practical problems that can be raised against each of our ideas. Still, we hope to stimulate a discussion that breaks out of the mold of standard ways of thinking about class struggle, and that does not necessarily accept the existing organizational structures. We draw upon our own experience, as well as the experiences of other projects around the country that we have observed. Some of these are not in manufacturing, but may still provide us with valuable lessons for organizing among those workers who are deemed unorganizable.

The primitive ideas we present here are generally consistent with the idea of Asocial movement unionism@ (Johnston 1994; Waterman 1998). We support the idea that the labor movement, whatever particular form it takes, needs to be a movement. That is, it needs to mobilize masses of people around a passionate search for social justice. It needs to demand fundamental social change. It needs to be exciting. It needs to be led by its own participants, and not by an outside, middle class leadership.

We begin this discussion by examining three major efforts that have been made to organize immigrant workers, at least partly in the manufacturing sector, namely: the California Immigrant Workers= Association (CIWA), LAMAP, and the Guess campaign, examining briefly the outcomes of the experiments. We then consider two broad approaches to organizing among low-wage, immigrant, manufacturing workers in global/flexible industries: worker-centered organizing based on strong labor-community alliances, and international solidarity work.

The California Immigrant Workers Association (CIWA, AFL-CIO) was a vital component to the success of the Drywallers and American Racing Equipment campaigns. The AFL-CIO in Southern California started it in 1989. It was an experimental project with outreach to Latina/o immigrants. CIWA was staffed by veteran community organizers from the Latina/o community. One AFL-CIO organizer recalled: AThese were folks who are seasoned veterans in organizing, speak the language, know the culture, and know the complexities of the immigration laws and the labor movement@ (quoted in Milkman and Wong 1998). Its purpose was to link the union movement with the immigrant, primarily Latina/o, communities. CIWA mobilized lawyers to help fight the INS. Unions, and community groups like Orange County-based Hermandad Mexicana National supported the drywallers with donations of food and other necessities. CIWA helped the strikers and their supporters from being intimidated by the numerous arrests and to pull off tactics like blocking the freeway in protest of INS raids. CIWA also played a key role in researching and filing the FLSA lawsuits which were critical to the ultimate victory of the drywallers. In the case of the American

Racing Equipment workers CIWA helped to broaden existing community ties and support, thus greatly contributing to the grassroots immigrant initiated organizing campaign. But despite its success the AFL-CIO leadership opted to terminate CIWA's funding and end the program.

Like CIWA the Los Angeles Manufacturing Action Project (LAMAP) developed because the unions were not organizing. LAMAP was the creation of veteran union organizers like Peter Olney. After the April 1992 uprising in Los Angeles, Olney theorized that unionization could be a vehicle for community economic development. Father Pedro Villarroya, a priest in charge of the Hispanic Mission for the Catholic Archdiocese, commented: AUsually unions organize around an issue, like salary. This [LAMAP] was around giving poor people a place in society@ (Gallagher 1998).

Learning from previous organizing projects like the Houston, Texas Project and Silicon Valley's Campaign for Justice, LAMAP was organized around four ideas: 1) unions should not rely on the NLRB, a.k.a. Athe graveyard of workers= hopes@ (Gallagher 1998); 2) unions should organize whole industries rather than individual shops; 3) organizing campaigns should be multi-union; 4) organizing campaigns had to be grounded in the community. LAMAP leader Peter Olney stated: APeople have demonstrated the ability to organize. The question is how do we, the unions, fit in? . . . You can=t just send a few people into town; put them up at a motel; collect authorization cards and file for an NLRB election. It=s just not working. It=s not how the Congress of Industrial Organizations (CIO) happened in the 1930s--unionization came up from the bottom@ (Gallagher 1998).

As its organizing target, LAMAP chose the Alameda Corridor. Almost two-thirds of the manufacturing jobs in Los Angeles are located in the 120 square mile corridor that stretches over 20 miles from downtown LA to the port. LAMAP designed organizing projects that were industry-wide *and* multi-union. It also had a community component for developing deep ties with the primarily Latina/o immigrant community, including offering ESL and citizenship classes.

The Department of Urban Planning, working closely with LAMAP, developed research courses to study L.A.=s manufacturing industries. In addition, the Labor Centers at UCLA and Cal-State Dominguez Hills created classes that provided university students with opportunities to work with the immigrant communities and learn about organizing. After graduating from these programs several students became full-time union organizers.

LAMAP needed a number of unions to provide financial support. But, as some organizers believe, unions failed to back LAMAP because it was planned as an independent community project outside of the union movement. Despite high praise from different international unions, and support from John Sweeney**,** who described LAMAP as a Amodel@ for organizing, LAMAP never secured stable funding from unions and eventually shut down in January 1998.

The Guess campaign was one of the most ambitious efforts to organize in that sector of manufacturing most impacted by globalization and flexible production, namely the apparel industry. The campaign was begun by the ILGWU, and continued by UNITE after the merger of the ILG with ACTWU. While Guess? Inc. did most of its cutting in-house, virtually all of the sewing was contracted out to about 100 contracting shops, mainly in Southern California, and employing primarily Latino immigrant workers.

The goal of the campaign was to organize Guess=s entire production system simultaneously, including the workers in its inside shop and the workers in its contracting empire. The original idea was to hold an organizing strike across the whole system. If Guess tried to shift its production to other contractors, efforts would be made to persuade those contractors to avoid getting involved in a labor dispute on the threat of getting embroiled in it.

The campaign failed for a number of reasons. Guess was extremely anti-union and used its considerable resources to do everything it could to break the union. Unfortunately, the fact that the merger into UNITE overlapped with the campaign, creating some internal turmoil, meant that the union did not give its full commitment to the struggle. As a result, Guess had the time to regroup and was able to shift much of its production to Mexico and elsewhere. Although the campaign leadership knew that Guess could do this, if a successful strike had been held, it was assumed that terms could be set to keep some proportion of the production local.

What the three examples show is the emergence of new strategies that reach out to workers who have traditionally been unorganized. These new strategies include innovative partnerships and ambitious goals. Unfortunately, each strategy ran into difficulties, including an inability to win long term support. To make these strategies viable, there must be real commitment and financial support. Moreover, these strategies need to be complimented with other approaches.

Worker-Centered versus Workplace Centered Organizing

Given the ability of capital, especially in the manufacturing sector, to shift location through outsourcing, the fight to win a contract with a particular employer at a particular worksite seems almost futile. You may win a skirmish in the battle, but lose the war as the major (sometimes indirect) employer shifts production away from that site.

An alternative approach is to organize workers regardless of where they are employed, instead of organizing a particular firm, waging a campaign against that firm, and trying to win a contract for the employees of that particular employer.[8] How, then, might one organize? How would one confront capital? And how would one win real gains? A few possibilities suggest themselves:

The first possibility is simultaneous multi-employer organizing. This method of organizing is about the creation of collective worker action as opposed to getting a collective bargaining agreement. It highlights the concept of organizing workers, as opposed to work places. This approach is particularly suited to those workers who have been deemed Aprivate contractors,@ contingent workers or employees of very small firms. The Solidarity union in Baltimore is an excellent example of this type of organizing (Fine 1998). The union fought for the passage of a Living Wage Ordinance in Baltimore, and as a consequence, hundreds of employees from dozens of very small firms got a raise. While most of these workers would be considered service workers, Solidarity's model of organizing suggests a strategy that could be useful for flexible manufacturing workers as well.

The workers involved in the project were dispersed throughout the low-income neighborhoods of the city. A partnership was created between a community-based organization, called B.U.I.L.D. (Baltimoreans United in Leadership Development), and AFSCME. The result was an organization, called Solidarity, that represented a community-union coalition. The workers were organized where they lived, in their communities. Because of the large number of small firms, collective bargaining in the traditional sense was not feasible. What AFSCME and B.U.I.L.D. did, instead, was to persuade the employers to pay into a health and welfare fund that provides the workers with health and dental plans. The workers pay dues to Solidarity, which splits the income between AFSCME and B.U.I.L.D. Solidarity represents the workers as if they had collective bargaining rights and, because of their collective actions, the workers have power to enforce a grievance procedure and other conditions of employment like health and safety.

Another possibility is organizing the workers in a particular industry, or industrial sector. The

approach here, which borrows from the experience of the CIO, involves attempting to organize all the workers in a particular industry, or sector of an industry, at the same time, regardless of where they are employed. For example, within the apparel industry, one might define a distinctive sector, like swimwear, or dresses. One would then try to organize all of the employees within this sector together, as a unit.

Bargaining would not occur with individual employers, but with an organization of all the employers in that sector, who would band together to deal with the organized workers. Ideally, large numbers of workers would sign up with the union, showing the potential strength of a united group of workers. The workers would engage in protests, and possibly strikes, to express their collective power, in order to bring the employers' organization to the bargaining table.[9]

One advantage of this approach is that employers would find it harder to engage in retaliations against activists, especially in the form of shifting production away from their plant. On the other hand, there is always the danger that the entire sector will decide to leave the region.

The method of organizing, under this model, would involve the recruitment of union members in a variety of settings: places of work, neighborhoods, churches, through radio and TV, and so forth. The workers so recruited would be full-fledged union members--not associate members, or non-members until they won a contract. (Associate membership programs create unequal strata within unions, and leave the most disadvantaged workers without power in their own union.) The union would hold regular meetings at convenient locales--Workers' Centers--where popular education, leadership training, and direct action plans would be developed (Fine 1998; Hermanson 1993; Ness 1998).[10] Each Center would send representatives to a coordinating body that would make decisions for the union as a whole.

Ideally, the Centers would help workers develop committees in each factory, so that all workers in that sector would know about the union, and would be encouraged to join. These factory cells would become important units in the union, collecting and sharing information about working conditions, and serving to enforce any contract that was signed. The union, so constructed, could also engage with government agencies on various issues, like the setting and enforcement of labor standards in the industry.

One attempt to develop these ideas in practice is the effort to build a Garment Workers' Center in El Monte. This project is very much an experiment in its first stages. Under the aegis of California-based Sweatshop Watch, a coalition of community groups, the Center aims at providing all garment workers in El Monte with a place where they can come together, receive help with wage claims, participate in political education, and engage in low risk political action. El Monte was chosen for a number of reasons: It has historical significance as the location of the infamous Thai slave-shop. The organizers also thought it was better to start with a smaller concentration of garment factories than the downtown garment district, and we believe that, in El Monte, workers are more likely to live nearer their places of employment. If we succeed in establishing a viable Center there, we may try other, more ambitious locations. El Monte was also selected because an important goal of the Center is to build multiethnic coalitions between Latino and Asian workers. El Monte has many factories that clearly employ workers of both major ethnic groups.

Another goal of the Center is to work closely with the growing student anti-sweatshop movement (discussed below), in order to build a worker-student coalition. We believe that students can bring good energy to the Center, and can perform multiple volunteer tasks. It is hoped that relations can be developed with nearby colleges and universities so that students can earn college credit for spending time helping to develop the Center.

Ultimately, the Center must develop a campaign in which workers struggle for concrete gains. The exact form of such a campaign is not yet clear, and would have to be developed with the membership.

Another worker-centered approach is to organize where workers live, regardless of where they work. One could define a neighborhood, like Pico Union in Los Angeles, and attempt to develop a union for all the people who live there, regardless of the industry in which they work. The ideal circumstance would be one in which work and residence are related, with the residents of a particular neighborhood tending to work in on or near that neighborhood.

This approach has been tried in various places, like San Jose, and near the Los Angeles International Airport (LAX). Organizers have gone door to door in an attempt to organize entire neighborhoods. Workers in a neighborhood like Pico Union near downtown Los Angeles, for example, may for the most part be employed in the major low-wage industries of Los Angeles--janitorial services, restaurants, garment factories and other light manufacturing.

Who would be the target of organizing? With whom would the union bargain and sign a contract? These questions are difficult and depend, to a large extent, on the coherence of the neighborhood. Perhaps a particular type of industrial employment would predominate, suggesting a kick-off campaign.

The advantage of such an approach is that the neighborhood could organize around multiple issues: housing, economic development, schools, child care, health care, transportation, and police abuse, as well as wages and working conditions. The neighborhood union would thus speak to the multiple social, economic and political needs and demands of the neighborhood.

UNITE is attempting to carry out a geographic-based organizing campaign in Southern Florida. This campaign involves organizing in multiple sectors almost simultaneously. In order for unions to be successful in this type of campaign they need to be community-based and able to work out the various jurisdictional issues they will encounter as they cross into the jurisdiction of other unions. Or, such a campaign would require a high level of coordination between various unions.[11]

In Los Angeles, unions have targeted key areas with high immigrant populations and have combined aggressive, political efforts (e.g., get out the vote campaigns and particular candidate elections) with highly visible and militant union campaigns, like Justice for Janitors. Their purpose has been to create a power-base for traditional unions within the immigrant communities, linking broader political issues with the bread and butter concerns of workers. The big turnout of a largely immigrant population (estimated at 20,000) at an AFL-CIO forum on immigrant rights, June 10, 2000, indicates the growing attention that unions are giving to linking community-based organizations (such as the Industrial Areas Foundation) with the union movement. Unfortunately, the driving force behind this initiative has been limited to unions based in services and the public sector.

To sum up, the old union jurisdictions no longer function well, and old systems of membership tend to exclude low wage, immigrant workers. We want to break down these barriers by breaking out of old organizational forms. One major goal is that union membership should be <u>open</u> to anyone who falls within the designated boundaries, however defined. They should be full-fledged members, and have the power to run their union. They would not lose membership if they lose their jobs. They would be building an inclusive movement that is not defined by capital mobility or decentralization. Thus, temp workers would be as able to join the union just like permanently employed workers.

International Solidarity Work

As is widely recognized, globalized capitalism demands a global response from workers. If ever the principle Aworkers of the world unite@ was true, it is true today. But if it is difficult to organize local workers who are employed in the globalized manufacturing sector, how much more difficult to organize across borders and among even more oppressed workers in the global south. Still, some promising efforts are occurring in this arena, most notably, the development of an anti-sweatshop movement in the United States and other countries.

The anti-sweatshop movement aims to mobilize constituencies in the United States, including students, consumers, and religious organizations, in an expression of outrage over the effects of globalization and flexible production on workers and their families around the world, and to demand that these industries take responsibility and change their practices. Numerous organizations have formed around these issues, and are working with unions and NGOs in southern countries.

Although the movement is not in itself focused on organizing workers into unions, it strongly supports the rights of workers to organized self-representation. It exposes illegal and immoral conditions, including efforts by companies to break unions, or to cut and run when violations are found in their contractors= factories. An important goal of the anti-sweatshop movement is to put a halt to the Arace to the bottom@ by U.S. transnational corporation that scours the world for the cheapest, most politically dominated workers. The movement wants to help these workers protect themselves by ensuring that their exploitation does not occur in silence.

One of the strengths of the anti-sweatshop movement is that it can cast unfavorable publicity on brands that live by their image and spend millions of dollars promoting it. Firms recognize their vulnerability, and have been scurrying to find ways to avoid being caught. Nevertheless, they have already been forced to make some changes, including developing Codes of Conduct, setting up monitoring systems, and joining monitoring organizations (including one set up by the federal government--the Fair Labor Association). Much of this may be symbolic, but a true gain was made with pressures by the student movement to get licensees in the collegiate apparel sector to disclose where their factories are located. Until very recently, these companies had claimed that they could not possibly reveal their factory locations because the information was a protected business secret. But disclosure has been won, opening the possibility to various forms of cross-border organizing drives with strong solidarity actions to support them.

The development by the AFL-CIO of the Solidarity Center, including efforts to get rid of the old Cold War leadership,[12] opens up new possibilities for coordination between the union movement and the other solidarity organizations that have emerged. For example, disclosure of factory locations compelled by the student movement may also be of use to labor organizers both at the local and the international level. New organizing drives may be developed that can, in turn, call on students and other anti-sweatshop activists for support.

The Los Angeles County Federation of Labor (LACFL) has allocated 30 percent of its resources to organizing. Its main focus continues to be electoral politics and deepening its ties with the Democratic Party, but it has a staffed an Organizing Department and hired a strategic researcher. Some of the key people in LAMAP are now employed at the LACFL. The LACFL is the hub of major organizing campaigns in industries that employ immigrants, including drives to organize Catholic Health Care West (SEIU), L.A. International Airport (HERE and SEIU), and probably the biggest campaign in a generation, the drive to organize 74,000 homecare workers (SEIU). However, LACFL=s Astrategic organizing@ focus is on industries that cannot run away, i.e., public sector or

service industries. The ability of some manufacturing enterprises to run away scares the hell out of unions. Where does this leave the hundreds of thousands of workers employed in these industries? Historical examples like CIWA and LAMAP tell us that organizers will recognize the vacuum and try to fill it. Across California immigrant workers and their advocates are forming their own social movements. Asian Immigrant Women=s Advocates (AIWA) in the north, the Korean Immigrant Workers Advocates (KIWA) in the south, the Pilipino Workers Center (PWC), the Association of Latin American Gardeners of Los Angeles (ALAGLA), the Day Laborer Organizing Project and the Domestic Workers Project (both of CHIRLA), are parts of this social movement. All of these organizations are dedicated to the empowerment of immigrant workers in some of the most exploited occupations in the United States. For instance, hundreds of day laborers have mobilized against anti-immigrant police harassment and local laws that limit their ability to solicit work. As Victor Narro of CHIRLA has said: AImmigrant workers are creating their own movement and creating their own union.@ But even among these brave efforts, manufacturing is conspicuously absent.

Discussion

The interests and goals of the emerging immigrant worker social movement center on gaining access to resources and overcoming the barriers created by the dominant Anglo American population. These barriers, which include the passage in California of Propositions 187, 209 and 227**,** prevent access for immigrants, primarily Latinos/as, but also Asians, on the basis of class, language, race, citizenship status and immigration status. Consequently, one of the primary struggles of California's immigrants is political in nature.

The union movement, on the other hand, is driven by a different set of interests. The primary concern of traditional U.S. unions is pursing the economic interests of union members and the preservation of their organizations. Within the union movement, Anglo dominance is also a barrier to full access by immigrants. Organizing large numbers of immigrants can change the demographics and impact the culture and governance of unions.

This point was made apparent after the successful Justice for Janitors organizing campaign in Los Angeles. Immigrants, many of whom were politicized in the struggles for democracy in Latin America, moved rapidly to replace the incumbent leadership. They won a majority of the seats on the union executive board. A power struggle ensued between the majority of the board and the incumbent leadership. After attempts at mediation, the International SEIU opted to place the local union into trusteeship and assume control. Eventually, the janitorial section of the local union was incorporated into a state-wide janitor's union under SEIU. Some local union leaders in the LA area are very aware of this case and voice their fear of similar incidents occurring in their local unions. Some have even used it as a reason for not making organizing their main goal.

However, common economic ground exists between the immigrants= need for economic survival and the unions= need for new members. The long-term survival of a local union could represent a stronger institutional interest than the survival of a particular leader. The membership of unions, therefore, has to be educated about the long-term benefits of organizing.

As the drywallers and American Racing Equipment campaigns taught us, organizing immigrant workers to serve the institutional interests of unions will not sustain the kind of campaign that is necessary to win. Viewing immigrant workers in this way limits the strategies that can be used to organize. This narrow view neglects the political needs of immigrant workers, which distinguishes most union organizing from the community-based organizing strategies.

Social movement unionism (SMU) presents the possibility for developing a relationship

between the union movement and other social forces (e.g., movements of minorities, immigrants and women), and between issues of shop floor democracy and internationalism (Waterman 1993). Specifically, SMU sees no boundary between the democratic political issues in the community and the struggle for democratic rights on the shop floor. It sees unions and communities creating strategic plans together. And it stresses the importance of a clearly articulated, independent political agenda. This agenda is designed to bring the various communities and social movements together in opposition to neo-liberal policies like deregulation of worker rights, the privatization of the public sector, the lowering of the economic floor by criminalizing immigrants and people of color, and destroying the welfare safety net and unions.

Conclusion

By themselves neither the union movement nor the immigrant organizing movement has the capacity to develop successful organizing strategies. Without a strong push from within the union movement to transform to SMU, and strong organizing outside of the union movement, i.e., independent immigrant worker organizing, it is unlikely that the union movement will organize in such a way as to win back what they have lost in the manufacturing sector in California. Concretely, organizing models that are community-based, geographic, industry-wide and worker-centered are models of organizing that were tested by the Industrial Workers of the World and the Congress of Industrial Organizations during the early part of the twentieth century. These strategies, adapted to the changing conditions of today, may help to show the labor and the union movement that the manufacturing sector can be organized on a scale that would strengthen the growing workers' movement against neoliberalism and global capital around the world.

Obviously, there are many stumbling blocks that face international organizing efforts, let alone support efforts by worker advocates in California and across the country. Problems of protecting local jobs, while not hurting workers' opportunities in other countries, constitute a formidable challenge. Nevertheless, working together, workers of the world can strive to find solutions that avoid pitting workers against each other, and that serve the best interests of <u>all</u>.

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Endnotes

[1]This article is a first statement in a larger project in which we plan to examine the topics raised here in greater depth.

[2]*California Statistical Abstract* 1988 and Current Population Survey data contained in *Union Membership and Earnings Data Book*, BNA 1998. The last calculation of union density performed by the Department of Industrial Relations of the State of California was done in 1988.

[3]*Ibid.* Due to the restructuring of the aerospace industry in Southern California, union density is expected to decline even more in next few years.

[4]We are not able to quantify the extent of inter-industry movement among low-wage workers, and base this statement on anecdotal evidence. We hope to be able to investigate the proposition more systematically at a later date.

[5]We have considerable skepticism about how good the good old days were. The golden age of U.S. labor relations was characterized by business unionism, as well as racism and sexism in the union movement. The accord between capital, labor and the state may have enabled many white families to move into the middle class, but most people of color were excluded from it, and white women were often relegated to the role of housewives.

[6]California, in general, and Los Angeles, in particular, appear to be leading the nation in terms of the growth of the working poor. These are full-time workers who nevertheless make wages that are well below the poverty line. The Aliving wage@ movement, which is gaining support in California, has sought to bring the families of the working poor up to the official poverty line--a sign of how low wages have sunk for this segment of the population.

[7]Some manufacturing unions in Los Angeles are trying to cope with this situation. The IAM, for example, following on the successful campaign at American Racing Equipment, is trying to organize the wheel industry. Given the size of the need, however, these appear to be small if valiant efforts.

[8]Fine (1998) develops this idea, calling it Alabor market unionism.@ The goal is to take wages out of competition across a city or industry. She points out that both craft and industrial unionism went beyond the worksite and firm levels. As she puts it:

> As relationships between workers and firms become more temporary and workers are less and less able to rely on a single employer to supply training, benefits, and upward mobility, unions may come to serve this function. In fact, unions could become the only fixed point in the changing universe of work. But unions cannot organize, bargain, and provide benefits one firm at a time. They have to target an entire labor market (p. 147).

[9]This was the way the fragmented apparel industry was organized in the East in the first place. A series of general strikes, starting in 1909, forced the various sectors of the industry to deal with the union across the entire sector. Difficult though these struggles were, however, they did not face the threat of industry flight offshore.

[10]Before it merged to form UNITE in 1995, the International Ladies Garment Workers Union (ILGWU) ran a number of these Centers, including one in Los Angeles. Unfortunately, the L.A. Center suffered from changing staff at the top, and inconsistent support for the concept from the union=s top leadership. We do not have an assessment of the successes and failures of the New York Centers, but believe that the concept has never been given a full and fair trial in Los Angeles. Some Centers are run by community groups rather than union, e.g., the Workplace Project on Long Island.

[11] The concept of a joint multi-union organizing project is a bold idea, but not new. It has been recently attempted, e.g., Texas, California and Wisconsin. In past years AOperation Dixie@ was a multi-union project. Leadership, coordination, commitment and allocation of resources between unions often become problems in this type of project.

[12] The dominant culture of the U.S. union movement was, to a large degree, framed during the McCarthy era. The emergence of this culture was best exemplified by the purging of the eleven Ared unions@ in 1949 by the CIO. The fear of communists infiltrating the AFL-CIO was a major concern of AFL-CIO President George Meany. Anti-communism created anti-communist clauses in the constitutions and by-laws of U.S. unions and the AFL-CIO. Prohibiting any non-AFL-CIO unions or groups from becoming members of local AFL-CIO Central Labor Councils further strengthened this.

The field representatives of the AFL-CIO enforced these provisions. Thus, the union movement increased the distance between the union movement and other social movements that should have been close allies, e.g., the civil rights movement and the anti-war movement. The distance between community unions and groups is an obstacle to the community unionism that is being advocated by the national AFL-CIO in its AUnion City@ program. This gap, today, has an adverse effect on the ability of the union movement to effectively organize minority and immigrant workers and to move beyond its own white chauvinism.

CHAPTER 16

LABOR AND COMMUNITY COLLABORATION

MARCOS VARGAS

Despite the current resurgence in union organizing activity in states such as California, continued expansion of the new economy has failed to lift a large sector of the state's labor force out of poverty. In light of this form of persistent inequalities, there has become a growing need to undertake new strategies to strengthen workers' collective voice. The overall decline in union membership nationwide during the last thirty years has also raised concerns over the capacity of organized labor alone to effectively address much needed wage, health and safety issues affecting many workers and their families. Moreover, many unions do not have the staff to effectively reach the growing number of immigrant low-wage workers. This is not to say that this new workforce cannot be organized. Over the last decade, some unions have successfully undertaken collaborative broad-based organizing efforts, such as Los Angeles' highly successful Justice for Janitors campaign, mobilizations to pass local living wage ordinances, and organized mass protests against global free trade policies. These trends reflect a growing realization of the strategic need to strengthen the collective voice of workers and their families through collaborative advocacy and organizing efforts that bring together organized labor and other sectors of civil society.

One sector which has emerged as a potentially important new partner in the efforts to give greater voice to the collective voice of workers is the state's community-based organizations (CBOs). In response to pressing issues of common concern to labor unions and CBOs, there has been a marked increase in collaboration between these two groups in the form of coalitions around unionization, community organizing and legislative advocacy. A survey of California unions and CBOs, from which this article draws much of its data, indicates that such collaborative efforts have become an integral part of efforts by unions to address issues affecting workers and their families. Such collaborative efforts include community-based organizing, political empowerment, policy planning, legislative advocacy, community unionization efforts, worker centers and social movements.

Furthermore, the growing influence of ethnic and multi ethnic CBOs in California has also provided opportunities for greater cooperation among organized labor and those organizations whose mission it is to serve immigrant communities. As California's Latino and Asian immigrant communities continue to grow in their economic and political importance, ethnic and multi ethnic CBOs, as well as CBOs engaged in social movements for social, economic and environmental justice, continue to exert political and economic influence. For example, grassroots efforts by Latino CBOs to effectively tap into the backlash against the 1994 passage of the anti-immigrant initiative Proposition 187 resulted in an increase in naturalization applications from approximately 250,000 in 1990 to an estimated 1.3 million in 1996. By 1998 this translated into a jump in Latino voter participation from 8 percent in 1994 to 13 percent in 1998, contributing significantly to the election of Governor Gray Davis and Lieutenant

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Governor Cruz Bustamante (Vargas 1999). Other CBOs with ethnic and multi ethnic constituencies have been instrumental in affecting local policy, such as living wage coalitions headed by such organizations as Los Angeles Alliance for a New Economy, San Jose's Working Partnership USA, and San Diego's Center for Policy Initiatives.

Efforts to pass city and county living wage ordinances through grassroots labor and community organizing campaigns represent one important new organizing and legislative strategy for raising the wage and health benefits standards of low-wage workers. A closer study of this strategy further indicates their potential for promoting greater long-term cooperation between organized labor and CBOs and the building of effective broad based coalitions for worker's rights. Such coalition-based organizing strategies therefore serve as models for strengthening the collective voice of workers and their families, as they expand their communities' capacity to support unionization and other pro-labor/community development activities.

This chapter attempts to better understand the growing role of contemporary labor/community collaborative efforts as strategies for strengthening the collective voice of California's workers and their families. The context for this investigation is a dramatically changing economy and labor market, coupled with marked changes in California's labor movement and the growing influence of ethnic and multi ethnic CBOs. The chapter draws significantly from data derived from a 1999/2000, five county UCLA study of California union and CBO participation in efforts to impact health and safety issues affecting workers and their families. The UCLA Institute of Industrial Relations study, which included a survey of 214 unions and CBOs from the counties of Los Angeles, Orange, Alameda, Fresno and Ventura, also served to illuminate the emergence of new forms of labor/community alliances.

As a form of case study, the chapter also focuses on a living wage campaign currently underway in Ventura County, California, involving a broad-based progressive coalition of community, labor and faith-based organizations. Having successfully mobilized grassroots support for living wage ordinances in the County of Ventura and City of Oxnard, the Ventura County Living Wage Coalition has included a regional initiative to improve health coverage for low-wage working families, and the establishment of a regional popular research and educational center for the study of sustainable economics as part of their effort to pass local living wage ordinances. As a model of labor/community collaboration, living wage campaigns, such as Ventura County's, provide useful information for building the overall capacity of these progressive organizations and strengthening the collective voice of workers.

Historical Context for Labor/Community Collaboration

While contemporary forms of labor/community collaboration are unique to current socioeconomic conditions facing working families, cooperation between organized labor and CBOs in California is not new. One prominent example is the Alinsky style organizing work of the Community Service Organization (CSO) in the early 1950s. Led by Industrial Areas Foundation (IAF) organizer Fred Ross, the CSO engaged in a methodology centered on organizing workers through community-based efforts and the provision of services to workers and their families (Reitz and Reitz 1987; Tjerandsen 1980; Vargas 1999). The CSO, which itself was established from a collaboration between Mexican American Steelworkers and several Mexican-American community-based associations, grew into a significant political force in Los Angeles, registering and mobilizing thousands of new voters, while addressing such issues as housing discrimination, school segregation and police brutality (Acuña 1988). The success of the CSO's grassroots organizing efforts eventually contributed to the establishment of the United Farm Workers under the leadership of Cesar Chavez, continuing its methodology of organizing grassroots community support for farm worker unionization efforts. This organizing model and other forms of labor/community collaboration continue today in organizing efforts targeting immigrants and other low-wage workers.

The current growth in labor/CBO collaboration has challenged some of the historical distrust between labor and low-income community organizations rooted in the 1960s and 70s. The basis of this distrust comes in large part from the participation of labor unions in business-led "growth coalitions" that encouraged private development and supplied union construction jobs to the building and construction

trade unions. These efforts prospered at the expense of working class communities, as communities of color were displaced by urban renewal, and often excluded from union jobs. While they protected current members in the building trades, these efforts pitted unions against poor communities of color (Zabin and Martin 1999; Mollenkopf 1983).

Economic and political changes beginning in the mid-1970s have contributed significantly to the conditions of new non-traditional alliances between labor and community in the 1990s. These changes included the rise in global competition, capital flight, and the nation's shift from a manufacturing to service economy, as well as a growing corporate anti-union offensive and a decade of Reagan/Bush anti-union and corporate deregulation policies. While experiencing a gradual decline since its 37 percent peak in 1946, labor membership has declined dramatically in the last two decades, dropping from 21 percent in 1980 to below 15 percent in 1995. Today, with only 11 percent of the private-sector labor force organized, it would take more than 300,000 new members recruited each year to keep up with the growth in the labor force, and millions more to reach the nation's 1946 peak (Bronfenbrenner et al. 1998).

With labor's renewed commitment to organizing in the mid-1990s, California has seen a dramatic rise in organizing campaigns focusing on the state's growing immigrant labor force. Due to the rank and file movement, which brought dramatic changes in union leadership, including the 1995 sweeping election of former Service Employee International Union (SEIU) president John Sweeney to the top leadership of the AFL-CIO, organized labor has dedicated resources to organizing at a level not seen since the early industrial unionism of the 1940s. These developments reflect a strategic effort to reverse the decline in union membership, stagnation in organizing efforts, and steadily shrinking bargaining and political power (Bronfenbrenner et al. 1998). California's low-wage service sector workforce has been the focus of much of the state's unionization efforts. Demographic change in California, associated in large part with increased immigration from Mexico, Central America and Asia through the 1980s and 90s, has resulted in Latino, and Asian immigrants dominating this burgeoning state-wide low-wage labor force.

The increase in immigration has also resulted in significant growth and political influence by ethnic and multi ethnic CBOs serving immigrant populations throughout California, thereby setting the groundwork for future labor/community collaborative efforts to organize immigrant workers. Latino CBOs throughout the late 1980s and early 1990s were at the forefront in serving immigrant families, providing important social services and undertaking community development programs, while also challenging anti-immigrant polities and other forms of institutional racism, sometimes even within organized labor (Vargas 1999; Garcia 1994). Community-based organizations, such as One Stop Immigration, Coalition for Human Immigrant Rights (CHIRLA), Hermandad Mexicana, El Concilio del Condado de Ventura, as well as numerous others immigrant rights and service organizations (IRSOs) throughout California, were advocating for the rights of immigrants, while also building political strength through naturalization campaigns, citizenship classes, voter registration and voter education campaigns (Vargas 1999).

By the early 1990s community-based immigrant worker organizations, such as California Immigrant Workers Association (CIWA), were also organizing Mexican and Central American workers, including day laborers and housing construction drywallers. Such efforts to organize immigrant workers, many of whom were undocumented, while supported by many rank and file union members, generally found little support from union leadership. However, in a few years, pragmatic realization of the potential of such immigrant organizing in raising union membership and the commitment of a number of labor activists and organizers resulted in the establishment of the Los Angeles Manufacturing Action Project (LAMAP), a multi-union, area-wide drive to organize immigrants working in Los Angeles' largest manufacturing district, the Alameda corridor. While now defunct, LAMAP showed the integral importance of expanding workplace organizing to the community (Bacon 1996).

Many of the contemporary forms of labor/community collaboration are associated with a new generation of social movements for economic and environmental justice, which emerged throughout the 1990s. Expanding beyond the workplace and the concerns of collective bargaining, these new forms of labor/community collaborations have addressed unionization, environmental protection, immigrant rights, and living wage standards for non-union low-wage workers, and the provision of employer based health

coverage. While it is still too early to determine the long-term effectiveness of many of these collaborative efforts, several are already proving successful in supporting unionization of low-wage workers, impacting local policy, and building the foundation for the sustainability of broad-based coalitions for economic justice.

Emergence of Contemporary Labor/Community Collaboration

Recognizing the need to strengthen their capacity to address the economic effects of the new economy on working families and communities of color, organized labor and CBOs have sought to establish new collaborative alliances. Since the mid-1980s and throughout the 1990s, California has seen an emergence in coalitions between organized labor and CBOs, including faith, student, and ethnic/multi ethnic based organizations. A response to the devastating nationwide impact of capital flight and de-industrialization on inner cities since the mid-1970s, unions and CBOs established new alliances in support of union organizing efforts and for greater accountability in economic development policy (Conrad 1997; Zabin and Martin 1999). With their roots nationally in defensive efforts to confront plant closures in the manufacturing industries in the 1980s (Nissen 1995), new labor/community collaborative efforts have sought to address a wider range of economic issues, including job access and better training and higher wages for low-wage workers in the growing service sector (Zabin and Martin 1999). As these alliances are formed, they are contributing to a better understanding of how labor/community collaboration can strengthen the voice of workers and their families.

Recognition by unions and CBOs of the importance of such collaborative efforts has been substantiated in the findings of a current 1999/2000 study of California unions and CBOs conducted by the UCLA Institute of Industrial Relations (IIR). The study, of which this author served as the project coordinator, included separate surveys of union and CBOs based in the five counties of Los Angeles, Alameda, Fresno, Ventura and Orange, as well as eight individual case studies.[1] Entitled "The Role of Labor in the Future of Work and Health," the study's primary focus has been the investigation of strategies undertaken by California unions and CBOs, both individually and collectively, to impact the health of workers and their families. Targeting the heads of local unions and the executive directors of CBOs as the study's primary respondents, the surveys gathered information on issues of worker health and safety, while also generating data on the level and type of union and CBO participation in labor/community collaborations, including involvement in social movement coalitions, and their reasons for participation. The case studies, which have investigated union/CBO strategies to address health issues affecting workers, included several cases in which unions and CBOs have participated in broader efforts to strengthen the collective voice of workers. Case studies also included union and CBO participation in campaigns to pass local living wage ordinances, efforts to impact welfare to work policy, environmental justice mobilizations, and union and management partnerships.

From the perspective of union leadership, CBOs are becoming an increasingly important ally in efforts of unionization, public policy advocacy, and political empowerment. Of the unions surveyed, over three-quarters acknowledged working cooperatively with CBOs in organizing efforts. While solidarity-based collaboration between different unions and locals is not uncommon within organized labor, collaboration with groups outside the labor movement remains less common. As discussed earlier, declining membership, a shift in priority toward organizing low-wage workers and the growing influence of the state's immigrant communities, have contributed to greater collaboration between organized labor and CBOs. The forms of collaboration, while varying, also reflect this context. Table 1 indicates the type of collaboration.

Table 1 Union Collaborative Involvement with CBOs

Cooperative Involvement	**No.**	**%**
Electoral/voter participation	67	59
Organizing support for unionization	62	54
Policy Advocacy/lobbying	41	36
Community-based organizing	33	29
Policy Research	15	13
Direct social services	1	1

Numbers and percentages derived from the 88 unions that are currently working cooperatively with community-based organizations.

Efforts to impact public policy, including policy advocacy, research, lobbying and electoral politics, make up the greatest point of intersection between these two sectors. While 36 percent identified the area of policy advocacy and lobbying as their collaborative work with CBOs and 13 percent the area of policy research, electoral politics is by far the most significant form of public policy collaboration on which unions are working with CBOs. Of those unions engaged in collaborative working relations with CBOs, 58 percent were involved in electoral/voter participation efforts. While this is not surprising, given organized labor's historical involvement in electoral politics as a public policy strategy, the extent to which electoral politics is present in labor/community collaboration also reflects efforts to make up political power lost by the labor movement through the last two decades. This form of labor/community collaboration has been particularly effective with Latino CBOs, whose constituency has historically voted in support of pro-labor Democratic candidates. This also reflects the extent to which predominantly ethnic and multi ethnic CBOs, in particular Latino CBOs, have been effective through the late eighties and nineties, in increasing immigrant naturalization and voter participation rates. Such alliances have been in the form of labor support for naturalization services, and direct collaborative participation in voter registration drives and get-out-to-vote efforts.

Consistent with organized labor's shift in recent years toward a greater emphasis on labor organizing, 54 percent of those unions involved in labor/community collaboration were also engaged in community-based efforts to mobilize support for union organizing efforts. This reflects organized labor's shift toward organizing low-wage immigrant workers and recognition of the importance of community support in the unionization of immigrant workers (Fine 1998; Ness 1998). One of the most successful examples of this form of labor/community collaboration is Service Employee's International Union's (SEIU) Justice for Janitor unionization campaign in Los Angeles, which was not only effective in achieving wage increases for its members city-wide, but effectively mobilized broad-based solidarity among many of Los Angeles' labor, faith-based and progressive community groups, thereby contributing to greater public support for this and other unionization campaigns for low-wage workers in the city.

As collaboration between unions and CBOs come to play an increasingly important role in union efforts to impact policy and mobilize support for unionization efforts, the establishment of broad-based coalitions has become an increasingly common organizational form of labor/community collaboration. Nearly 70 percent of the unions surveyed are also participating in one or more labor/community coalition efforts to address broader social issues. Coalitions to pass local living wage ordinances ranked at the top of social issues unions were collaborating with CBOs, with 62 percent of the unions participating. This was followed by 46 percent for coalitions addressing health care reform, and nearly one-third for advocating for immigrant rights (see table 2).

Table 2 Social Issues Being Addressed by Unions in Labor/Community Coalitions

Social Issue	No.	%
Living wage	49	62
Health care reform	36	45.6
Immigrant rights	25	31.6
Welfare reform	23	29.1
Education reform	23	29.1
Environmental	17	21.5

Numbers and percentages calculated from the 79 unions currently participating in one or more labor/community coalitions toward addressing social issues.

While the survey data indicates that CBOs, as a sector, have a high propensity to be engaged in collaborative efforts with other CBOs, it also indicates that they are less frequently engaged in collaborative efforts with unions. This may be due to the diversity of the CBO survey sample, which included traditional non profit service providers. Of the one hundred CBOs surveyed, 72 percent were actively participating in ongoing coalitions effort around community organizing or advocacy activities, yet only 40 percent had any experience in working cooperatively with unions or other worker organizations. However, for those CBOs involved in labor-related advocacy or organizing, collaborative working relations with unions were quite common, with 83 percent of these CBOs working with unions. As for the type of labor-related advocacy and organizing these CBOs were engaged in, over 60 percent were involved in worker rights education, and just over one-half were involved in labor advocacy. Only 31 percent were involved in organizing workers, and 17 percent in labor related research (see table 3).

Table 3 CBOs participating in Labor-Related Advocacy and Organizing

Program Type	No.	%
Worker rights education	22	62
Labor advocacy	19	54
Organizing workers	11	31
Labor research	6	17
Other	6	17

The numbers and percentages calculated from the 35 CBOs currently involved in labor-related advocacy or organizing activities.

Recognizing the link between the poverty conditions facing low-income working families in their homes and communities and the low wages and powerlessness they experience at the workplace, increasing numbers of CBOs are reaching out to unions for assistance in community-based development, advocacy, and organizing efforts. Furthermore, in the wake of increased government devolution and shrinking social programs, CBOs serving low-income people have been forced to look for new allies. While many CBOs bring with them a broad range of technical skills and experiences, from legal services and policy advocacy to fund development, many also recognize their limitations and consequently the need to seek assistance from other groups. Community concerns that CBOs have sought union support for range from affordable housing, economic development, education, and environmental safety issues, which affect both recent immigrants and other low-wage workers.

Some CBOs have also have sought to expand their advocacy and organizing efforts to include greater support for improved wages and benefits, as well as collective bargaining. Interviews with CBO executive directors indicate that in some cases it has been through their participation in broad-based coalitions addressing economic justice issues that they have come to work with unions for the first time, and in the process have become more aware of the advantages of ongoing collaboration. For example, of those 26 CBOs which were participating in efforts to pass local living wage ordinances, approximately two-thirds are working cooperatively with unions, versus less than a quarter of those not participating in living wage campaigns. The primary reasons CBOs gave for their participation in living wage campaigns

were a desire to both improve wage and benefits standards for workers and to strengthen the collective voice in support of worker issues. In summary, their reasons for participation in living wage campaigns included: to increase the wages and benefits for affected low-wage workers (83 percent), to raise the overall wage and benefits standard generally for workers in the region (75 percent), to broaden labor/community cooperation in the region (50 percent) and to help unionization efforts (44 percent).

The emergence of broad-based coalitions of labor and CBOs is significantly changing the political and public policy landscape in California and nationwide as these new alliances give greater voice to low-wage workers and bring together progressive sectors concerned with issues of economic justice. One need only look at the impact made by the broad-based coalition in Seattle in opposition to the free trade policies of the World Trade Organization, or the newly established coalition of immigrant rights advocates and the AFL-CIO in support of a renewed amnesty program, to see the potential for affecting state, national and even global policy. The impact can also be seen in the effectiveness of the statewide alliance between Latino CBOs and organized labor in California's 1998 gubernatorial election. At the local level, labor/community coalitions are effectively impacting local economic development policy and establishing higher local wage and benefit standards while providing greater protection for organizing workers. One clear example of the effectiveness in such collaborations is the passage of local living wage ordinances in cities and counties throughout California, some of which include labor neutrality and worker retention clauses.

Living Wage Campaigns as a Model For Labor/Community Collaboration

Where the survey findings provide an overview of the extent and basic characteristics of labor/community collaboration, case studies, such as the Ventura County's living wage campaign, provide an even greater understanding of the process of collaboration. The living wage campaign currently underway in the County of Ventura illustrates the potential of such alliances to impact the wage and benefit standards of low-wage workers at the local level, while also strengthening the overall capacity of working families and their advocates for unionization efforts and initiatives affecting working families. Formed in December 1997 as the outcome of a series of community meetings initiated by several local CBOs to discuss the prospect of passing living wage ordinances in a number of Ventura County cities, the Ventura County Living Wage Coalition (VCLWC) has established itself as a broad-based multi ethnic regional coalition made up of over 40 community, labor, faith, student and environmental based organizations. While the VCLWC continues its campaign to secure the passage of its first local living wage ordinance in the region, the coalition has been successful in mobilizing public support for living wage proposals currently before the City of Oxnard and County of Ventura. As a result of the success of VCLWC organizing efforts, in November 1999, the County of Ventura adopted "in concept" a county living wage ordinance, with formal adoption of an ordinance expected by the end of 2000. The City of Oxnard is also considering a VCLWC proposed living wage ordinance, scheduled for a council vote in the fall of 2000.

Since the passage of the Baltimore living wage ordinance in 1994, as many as 35 living wage ordinances have been passed nationwide, including eight in California. California cities and counties that have passed living wage ordinances include Los Angeles City, Los Angeles County, Pasadena, Oakland, San Jose, San Francisco and Berkeley. While the scope and enforcement capacity of each ordinance is different, the underlying premise is to create minimum standards that raise the income floor for low-wage workers and redirect the future path of the economy (Zabin and Martin 1999). Modeled after living wage ordinances already passed in several cities and counties, the ordinances being proposed by the VCLWC higher wages, health benefits and removal of some obstacles to union organizing (Vargas 1999).

Just as in other communities where living wage campaigns have been waged, the Ventura County living wage campaign has provided a number of CBOs the opportunity to participate, often for the first time, in solidarity actions with labor, as well as collaborative efforts with local unions. Of the thirteen surveyed Ventura County CBOs involved in living wage campaigns, over half were currently working cooperatively in one form or another with labor unions, in contrast with only one of the surveyed CBOs which was not involved in the living wage effort. Interviews with several CBO executive directors

indicated that for a majority of these CBOs, the living wage effort was the first time, as an organization, that they had worked collaboratively with unions.

The VCLWC's emphasis on coalition building as one of the primary elements of its mission is reflected in CBO coalition members' attitude toward their establishing new collaborative working relations with unions. In comparison with the reasons given for living wage coalition participation by the overall sample of CBOs, Ventura County CBOs participating in the local living wage effort placed a significantly greater importance on "broadening labor/community cooperation." Since the formation of the VCLWC, CBO coalition members have participated in labor organizing efforts, including support for United Farm Workers actions to organize mushroom workers, independent unionization of packinghouse workers, and SEIU's home-care worker organizing efforts. Union support for CBO mobilizations and lobbying efforts have included public support and testimony on behalf of proposed affordable housing projects and efforts to ban the use of the pesticide Methyl Bromide in proximity to schools.

Like the City of Los Angeles' living wage ordinance, ordinances proposed by the VCLWC include measures to directly improve the climate for unionization. VCLWC ordinances include "worker retention" and "labor peace" provisions. The worker retention provision provides for job security at the point when the employer's contract and/or lease with the public agency expires, by requiring any new contractors to retain the workers of the previous contractor for 90 days. Pioneered by San Jose's labor peace, or labor neutrality ordinance provision, Ventura County ordinances would restrict contractors, lessees and subsidy recipients from using public funds to influence workers on the question of unionization, thereby avoiding the all too common practice of hiring high paid union busters to break unionization efforts. The VCLWC ordinance also includes an "opt out" clause, which allows specific terms of the ordinance to be superseded by a collective bargaining contract. As seen by the effective use of similar pro-labor provisions included in the Los Angeles City ordinance, the VCLWC will have positioned itself to only offer support for new developments in return for compliance with living wage neutrality in the event of organizing drives.

As the VCLWC advances in its campaign to pass living wage ordinances in the City of Oxnard and the County of Ventura, it has become increasingly successful in engaging affected workers into coalition actions. Because those workers to be affected by living wage ordnances are, for the most part, unorganized and have not yet been targeted for unionization campaigns, traditional labor organizing methods have not been used. Such efforts generally require full-time labor organizers. Ventura County's living wage effort, unlike most living wage campaigns, has been undertaken on a strictly volunteer basis without funded staff support. Without funds to hire full-time organizers, efforts to engage affected workers have taken the form of outreach methods used by CBOs, such as community meetings, tables at community events, visibility on the local English and Spanish media, and presentations to community associations and church groups and to workers participating in retraining efforts. Volunteers can more easily conduct such efforts. By far the most successful has been an arrangement established with the Center for Employment Training (CET) to provide presentations to unemployed or underemployed workers seeking retraining. Such mobilizations have served to bring the voice of low-wage workers and their families into the local policy arena, providing testimony and participation at county board of supervisors and city council meetings.

Living wage efforts can provide avenues for addressing other policy issues affecting working families, including policies to increase the number of employers providing health coverage for non-union workers. For example, while all living wage ordinances seek to raise the wages of low-wage workers, the inclusion of employer health coverage incentives within living wage ordinances, along with the mobilization of broad-based coalition actions, can place greater attention on legislation and other remedies toward addressing the severe lack of health coverage for working families. Drawing from the living wage ordinance adopted by the City of Los Angeles in 1997, ordinances currently before the Ventura Board of Supervisors and Oxnard City Council include provisions for health benefits. Under these proposals, employees of city and county contractors, subsidy recipients and lessees of $25,000 or more are required to pay their employees $8 an hour with health benefits, or $10 without. Like the Los Angeles ordinance, the Ventura County and Oxnard ordinances reflect the importance of health benefits

in compensation packages for low-wage workers and affirm the role of employers in ensuring that workers have access to health care.

In recognizing the high cost of insurance premiums as an argument by employers for not providing health coverage to their workers, efforts by the have included the convening of a regional taskforce to begin to address health coverage as a local policy issue. Under most HMOs and PPOs, the additional $2 per hour in health benefits in lieu of the higher wage, required by the VCLWC's ordinances, is sufficient for employers under group purchasing plans to provide health insurance for their workers with dependents. However, underwriting requirements for firms of fewer than 50 employees can result in premiums above $2 per hour for coverage of workers and their families. For this reason, the VCLWC has also organized a county taskforce on healthcare for working families, with the mission of investigating new options to improve low wage workers' access to healthcare coverage, including the possible provision of managed care through the county's existing public hospital and clinics. Participants in the taskforce include employers, insurance underwriters, labor, physicians, health advocates, CBO service providers, and a policy expert from UCLA's Lewis Center for Policy Studies.

As a means of sustaining the long-term viability of labor/community living wage coalitions as regional institutions for economic justice, numerous coalitions around the country have evolved new collaborative organizations that can integrate strategies for organizing, policy development, and alliance building (Zabin 1999). In some cases, the living wage coalition has directly established the new organization, such as in the case of Oakland, which formed a new organization after the passage of the ordinance. Early recognition of the need for such an organization has prompted the establishment of a new non profit umbrella organization in order to sustain the coalition of labor and community groups, as well as to support the existing living wage campaign.

Drawing from hybrid organizational models, such as Sustainable Milwaukee, San Jose's Working Partnership and the Los Angeles Alliance for a New Economy (LAANE), the VCLWC has undertaken the establishment of its own regional non profit organization, Tri-Counties Costal Alliance United for a Sustainable Economy (CAUSE). Established as a non profit popular research, information and educational center for the study of sustainable economic policies and development activities in Ventura, Santa Barbara and San Luis Obispo, CAUSE will serve as an umbrella organization for social, economic and environmental justice initiatives. With committed funding from several progressive foundations, CAUSE will also provide a means for raising foundation grants in support of such efforts as the living wage campaign, a health coverage taskforce and the development of a regional worker center, by convening participatory research efforts and providing such activities as policy research and analysis, technical assistance, staff support and popular education.

Conclusion

The emergence of new forms of labor/community collaborations reflect a growing recognition by unions and CBOs of the need to strengthen the voice of workers and to build the collective capacity of these organizations in support of those workers left behind in the new economy. This recognition is based in large part on labor's need to recover dramatic losses in union membership, which have taken place over the last half-century. This, in turn, has resulted in labor's shift toward organizing unorganized workers, which, in states such as California, has meant targeting low-wage, predominantly immigrant workers. Drawing from earlier experiences, such as efforts to organize Mexican farm workers in California during the 1950s and 1960s and recent efforts by immigrant rights and service organizations to organize immigrants throughout the late 1980s and 1990s, unions and CBOs are merging with new social movements for social, economic and environmental justice to establish new forms of labor/community collaboration. As these organizational formations evolve, they also offer the potential for impacting not only local policy, but also state and federal public policy affecting working families, such as issues of health care, education and global free trade policy.

Such collaborative formations also raise consciousness of the plight of low-wage workers and their families and the important role each group plays in addressing these issues, while also bringing together the strengths of each group to improve the overall capacity of workers and their advocates. In

the process, both unions and CBOs learn important skills and gain insights from each other. For example, unions can learn new approaches to leadership development, multiculturalism, fund development and relationship building from CBOs. CBOs, in turn can learn tactics from unions for turning commitment and activity into organization. Joint efforts in leadership development, workers centers, research, and lobbying are programmatic examples, which draw on the best of both groups (Needleman 1998).

Lastly, social movements for economic justice, such as living wage campaigns, can offer new models toward empowering and improving the lives of low-wage workers, while also nurturing community/labor solidarity and collaboration. The strategic inclusion of measures to improve the climate for unionization in living wage ordinances, such as worker retention and labor neutrality provisions, serves to further support local unionization efforts. Furthermore, by incorporating provisions in living wage ordinances which not only seek higher wage standards for employees of city and county contracts but also provide incentives for the provision of health benefits as well as greater accountability in economic development, living wage campaigns can place the needs of low-wage workers and their families on the local policy agenda. Lastly, broad-based labor and community collaboratives facilitate the mobilization of affected workers, their families and neighbors, thereby expanding the overall capacity of workers to affect needed change and strengthening their collective voice.

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Endnotes

[1] The Future of Work and Health study of California unions and CBOs was conducted by the UCLA Institute of Industrial Relations under a grant funded by the Wellness Foundation. The study's primary data was derived from two separate mail surveys of unions and CBOs, conducted from September 1999 to February 2000, targeting unions and CBOs in the counties of Los Angeles, Alameda, Orange, Ventura and Fresno. The study derived its survey universe of 800 unions and CBOs from union and non profit service directories and membership lists from associations, labor councils and federations, such as the Los Angeles County Federation of Labor. Because of the study's emphasis on health and safety related issues relating to identified case studies, one-half of the universe of Los Angeles-based unions were segmented to include adequate representation of teachers unions, hospitality unions and health care unions. The other half of the Los Angeles-based union universe was randomly chosen from the County Federation of Labor mailing list. The full CBO survey universe was also segmented to only include non profit community-based advocacy and health and human service organizations.

Union survey questions were broken into eleven categories, including: local union background, health plans, health and safety issues, participation in policy debates, labor/community cooperation, immigration, technological change, union/management cooperation, organizing, government agencies, propositions and general working conditions. Similarly, the CBO survey questions were broken into the following categories: organizational background, community organizing and development activities, labor related activities, health care/environmental/ or worker health and safety issues, and organizational development.

Data generated from the eight case studies was derived from interviews, secondary data sources, such as the Bureau of Labor Statistics, and literature reviews. The case studies included: Agricultural Workers and Pesticide Health Hazards, Teachers Unions and Violence in Public Schools, Living Wage Campaigns and Employer-based Health Coverage, Joint Worker-Management Efforts at Kaiser Health, Environmental Justice and the AQMD, Health and Safety Efforts of Immigrant Worker Centers, Union Participation in Single Payer Health Legislation, and Union and CBO Welfare to Work Policy Advocacy.